Appendix A

***Sky Technologies LLC v. SAP AG*,**
576 F.3d 1374 (Fed. Cir. 2009)

United States Court of Appeals,
Federal Circuit.
SKY TECHNOLOGIES LLC, Plaintiff-Appellee,
v.
SAP AG and SAP America, Inc., Defendant-Appellant.
No. 2008-1606.

Aug. 20, 2009.
Rehearing and Rehearing En Banc Denied Oct. 28, 2009.

***1376** Alexandra G. White, Susman Godfrey L.L.P., of Houston, TX, argued for plaintiff-appellee. With her on the brief were Brian D. Melton, Max L. Tribble, Jr. and Anne Mullins.

Paul S. Grewal, Howrey LLP, Cupertino, CA, argued for defendant-appellant. With him on the brief were Lloyd R. Day, Jr., Robert M. Galvin and Renee DuBord Brown. Of counsel was Sriranga Veeraraghaven.

Before MICHEL, Chief Judge, BRYSON, Circuit Judge, and SPENCER, Chief District.

SPENCER, Chief District Judge.*

Appellants SAP AG and SAP America, Inc. ("SAP") filed an interlocutory appeal from the judgment of the United States District Court for the Eastern District of Texas finding that Sky Technologies LLC has standing to bring a patent infringement suit in the district court. Because the district court correctly relied on the holding in *Akazawa v. Link New Technology International, Inc.*, 520 F.3d 1354 (Fed. Cir. 2008), to determine that patent ownership was properly transferred by operation of state foreclosure law, giving Appellee clear title to the patents-in-suit and therefore standing in the underlying case, we affirm.

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* The Honorable James R. Spencer, Chief Judge, United States District Court for the Eastern District of Virginia, sitting by designation.

I. BACKGROUND

Jeffrey Conklin ("Conklin") founded TradeAccess, Inc. ("TradeAccess") in 1996. Conklin, along with other inventors, obtained a portfolio of patents, which are the subject of this suit.[1] Conklin and the other inventors assigned all of their "right[s], title[s], and interest together with the benefits and privileges in and to said inventions and discoveries" to TradeAccess. These assignments were recorded with the United States Patent and Trademark Office ("PTO"). TradeAccess later changed its name to Ozro, Inc. ("Ozro").

On April 2, 2001, Ozro, the Grantor, executed an Intellectual Property Security Agreement with Silicon Valley Bank ("SVB") ("SVB Agreement"), granting SVB a "security interest in all of Grantor's right, title, and interest, whether presently existing or hereafter acquired in, to and under all of the Collateral." The Collateral included the patents-in-suit.[2] The SVB Agreement was filed with the PTO on April 2, 2001. On April 3, 2001, Ozro executed a similar security agreement with *1377 Cross

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[1] U.S. Patent Nos. 6,141,653; 6,336,105; 6,338,050; 7,162,458; and 7,149,724.

[2] Specifically, the Agreement gave SVB

> "a first priority security interest in all of Grantor's right, title, and interest throughout the world in ... (d) [a]ll inventions, rights to apply for patents, patents, patent applications, and like protections ... including without limitation the patents and patent applications set forth" in the Agreement.

Atlantic Capital Partners, Inc. ("XACP") ("XACP Agreement"), for the benefit of the XACP Entities.[3] The XACP Agreement contained virtually identical language as the SVB Agreement. Ozro used both Agreements to secure loans, and, in the event of default by Ozro, both parties had "the right to exercise all the remedies of a secured party upon such default under the Massachusetts UCC," including the right

> (i) to take possession of all or any portion of the Intellectual Property Collateral, (ii) to sell, lease, or otherwise dispose of any or all of the Intellectual Property Collateral . . . and (iii) to exercise all or any of the rights, remedies, powers, privileges and discretions under all or any of the documents relating to the Secured Obligations.

Moreover, in the event of default, Ozro would be required to "assemble the Intellectual Property Collateral and any tangible property in which [SVB or XACP] has a security interest and to make it available to [SVB or XACP]." The XACP Agreement also contained a specific provision providing for disposition of the Intellectual Property Collateral at a public or private sale, should default occur, and

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[3] At all times, XACP acted as an agent for Cross Atlantic Technology Fund, L.P., The Co-Investment 2000 Fund, L.P., and 3i Technology Partners L.P. Within the Agreements, these parties are referred to as the "XACP Entities." For purposes of this Opinion, "XACP" refers to all of these entities.

permitted XACP to purchase the Collateral at the public sale, should it wish to do so.

In December 2002, SVB assigned its security interest to XACP through a Non-Recourse Assignment, giving XACP all of the "right, title, and interest" formerly held by SVB. This Assignment was recorded with the PTO; at that point, XACP held the security interest in all of the patents-in-suit.

Ozro defaulted on its loan obligations and XACP foreclosed on the patents. On February 18, 2003, XACP issued a foreclosure notice ("Notice") to all of Ozro's creditors, inventors, and counsel. The Notice identified the patents-in-suit as those to be sold at public auction.

In the meantime, Conklin started a new company, Whitelight Technology, later known as Sky Technologies LLC ("Sky"). Conklin entered into negotiations with XACP to transfer ownership of the patents-in-suit to Sky. On June 4, 2003, XACP and Conklin signed a Settlement Agreement stating that XACP:

> shall use [its] best efforts to obtain title to the Intellectual Property [including the patents-in-suit] for purposes of a transfer from [XACP] to [Sky] by selling all of [XACP]'s rights in and to the Secured Intellectual Property by Public Auction within sixty (60) days after the Effective Date. . . . At the Public Auction, [XACP] will credit bid up to $4,031,844 as may be required to

> purchase the Intellectual Property, including but not limited to the right to sue for past infringement or misappropriation of the Patents, covered by security interest held by [XACP].

To the extent that portions of the Intellectual Property are not subject to the security interests held by [XACP] . . . [XACP] and Conklin agree to use their best efforts to acquire such assets from Ozro to be held by [Sky] without further consideration payable by Conklin or XACP.[4]

*1378 Both XACP and Jeffrey Conklin, as an individual, signed the Settlement Agreement. Conklin also signed the document as Manager of Whitelight Technology.

On July 14, 2003, XACP foreclosed on its security interests at public auction. The security interest formerly held by SVB and subsequently assigned to XACP was sold first, and then XACP foreclosed on its own security interest. XACP was the only bidder for both sales and purchased all of

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[4] The terms of the Settlement Agreement were previously drafted in a Term Sheet. However, the Term Sheet was never presented to the district court and, therefore, is an improper part of the appellate record. Fed. R. App. P. 10(a)(1) (stating the record on appeal contains "the original papers and exhibits filed in the district court"); *see also Moore U.S.A., Inc. v. Standard Register Co.*, 229 F.3d 1091, 1116 (Fed. Cir. 2000) ("[T]he record on appeal is generally limited to that which is before the district court.").

the assets. On July 22, 2003, pursuant to the Settlement Agreement, XACP assigned all of its "right[s], title, and interest in" the patents-in-suit to Sky by a written assignment ("Sky Assignment"). At no point after foreclosure did Ozro execute a written agreement assigning all of its rights, title, or interests in the patents to XACP.

On October 17, 2006, Sky filed a patent infringement suit against SAP in the United States District Court for the Eastern District of Texas. On January 4, 2008, SAP moved to dismiss Sky's Complaint for lack of standing. On March 20, 2008, the district court requested supplemental briefings from the parties to discuss whether the SVB and XACP Agreements alone granted substantial rights, or whether the security agreements transferred title upon default of the debtor.

On June 4, 2008, the district court, relying on this court's opinion in *Akazawa*, held the patents-in-suit were transferred from Ozro to XACP through the July 14, 2003 foreclosure proceedings. Because XACP properly complied with the Massachusetts Uniform Commercial Code ("UCC") foreclosure requirements by placing the patent collateral up for sale at a public auction and notifying Ozro of the sale, the district court held title was transferred on July 14, 2003, the date of the foreclosure. For this reason, when XACP assigned the patents-in-suit to Sky on July 22, 2003, Sky became vested with all rights, title, and interest in the patents. Thus, the chain-of-title had not been broken from Ozro to Sky, and Sky was declared the proper title-holder of the

patents-in-suit, giving Sky standing to bring the patent infringement suit.

SAP filed a Motion for Reconsideration and/or Certification of Question for Interlocutory Appeal on July 15, 2008. The district court denied the Motion for Reconsideration because SAP failed to raise any new argument or present new evidence. However, the district court found that "substantial grounds for difference of opinion exist regarding the question of whether a transfer of title through operation of law without a written assignment may apply in situations that do not involve heirs or probate law." The district court granted SAP's Motion for Certification of Question for Interlocutory Appeal. This appeal followed. We have jurisdiction pursuant to 28 U.S.C. § 1292(b).

II. DISCUSSION

A. *Standard of Review*

An Article III standing challenge is a question of law, which this court reviews de novo. Akazawa, 520 F.3d at 1355 (citing Prima Tek II, L.L.C. v. A-Roo Co., 222 F.3d 1372, 1376 (Fed. Cir. 2000)). As this matter is before the court on an interlocutory appeal, our jurisdiction "applies to the order certified to the court of appeals, and is not tied to the particular question formulated by the district court." *1379 *Yamaha Motor Corp. v. Calhoun*, 516 U.S. 199, 205, 116 S.Ct. 619, 133 L.Ed.2d 578 (1996)

(finding that the court is limited by the certified order, but may consider all issues discussed within that order) (emphasis omitted).

B. *Valid Transfer of Patent Title through Operation of Law*

In order to seek damages for infringement of a patent, a party must have standing at the inception of the lawsuit. *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1579 (Fed. Cir. 1991). A party that has been granted all substantial rights under the patent, "regardless of how the parties characterize the transaction that conveyed those rights," is considered to have legal title, and therefore standing. *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1249-50 (Fed. Cir. 2000). Thus, it is the "substance of what was granted" that determines the rights in the patent, not the form. *Id.* at 1250; *Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA*, 944 F.2d 870, 873-76 (Fed. Cir. 1991). In the present case, the central question is whether XACP had legal right, title, and interest in the patents-in-suit to transfer all of those rights to Sky, thereby providing Sky with standing to bring the underlying infringement claim. Appellants contend that because no writing exists transferring the patents-in-suit to XACP, Sky did not obtain legal title from XACP, and therefore does not have standing in this matter. Appellee disagrees, and argues that *Akazawa* permits transfers of patent ownership by operation of law without a writing, and because the patents-in-suit were foreclosed upon in accordance with Massachusetts law, XACP became the owner of

the patents on July 14, 2003, after the foreclosure proceedings. Accordingly, Appellee contends that XACP's assignment to Sky vested Sky with full legal title and standing in the underlying case. We agree.

1. *Akazawa Controls*

We have previously held that patent ownership is determined by state, not federal law. *Akazawa*, 520 F.3d at 1357 (*citing Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997) ("[T]he question of who owns the patent rights and on what terms typically is a question exclusively for state courts."). However, "the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases," and therefore we have "treated it as a matter of federal law." *DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008). Usually, federal law is used to determine the validity and terms of an assignment, but state law controls any transfer of patent ownership by operation of law not deemed an assignment.

The Federal Patent Act requires that all assignments of patent interest be in writing. 35 U.S.C. § 261 (2006). This requirement dates back to the 1881 Supreme Court decision in *Ager v. Murray*, which held that a debtor's interest in a patent that would be used to satisfy a judgment against him was property, "assignable by him, and . . .[could not] be taken on execution at law." 105 U.S. 126, 131-32, 26 L.Ed. 942 (1881). The Court held that the patentee

was required to execute a writing to assign title, or a trustee would be appointed to execute an assignment, "if the patentee should not himself execute one as directed." *Id.* at 126, 132. This decision was based on the idea that a creditor cannot reach incorporeal property, such as a patent, due to its intangible nature; the transfer (either voluntary or involuntary) to a purchaser must be done by written assignment "in order to vest [the purchaser] with a complete title ***1380** to the property." *Id.* at 130 (*citing Stephens v. Cady*, 55 U.S. (14 How.) 528, 531, 14 L.Ed. 528 (1852)).

Even though a transfer of patent ownership, if through an assignment, must be in writing, this court has held, "[T]here is nothing that limits assignment as the only means for transferring patent ownership. . . . [O]wnership of a patent may be changed by operation of law." *Akazawa*, 520 F.3d at 1356. In *Akazawa*, the defendant challenged the plaintiff's standing to sue for infringement based on an alleged defect in the assignor's claim of ownership in the patent. *Id.* at 1355. Akazawa, the inventor of a patent, died intestate, after which his wife and daughters agreed that all of Akazawa's rights would be transferred to his wife, who then transferred her rights to the plaintiff. *Id.* at 1355. The district court held that the plaintiff lacked standing to enforce the patent because no writing had been issued from the inventor to his wife granting her all of his rights to the patent. *Id.* We reversed the district court's decision and held that passage of title through intestacy is not an assignment, and therefore did not require a writing. *Id.* at 1358. Further, we stated

that if the controlling state or foreign intestacy law passed title of the patent to the wife and daughters upon the inventor's death, then all subsequent transfers were valid. *Id.*

We find that *Akazawa* controls in the instant case, and that the district court's reliance on its reasoning was appropriate because transfer of patent ownership by operation of law is permissible without a writing. *Akazawa* says nothing about permitting *assignments* without a writing; rather, this court made it clear that if assignment is the method of transfer of patent ownership, it must be done in writing, pursuant to § 261. *See Akazawa*, 520 F.3d at 1356. However, assignment is not the only method by which to transfer patent ownership. As noted below, foreclosure under state law may transfer patent ownership. Here, XACP's foreclosure on its security interest was in accordance with Massachusetts law; therefore, Sky received full title and ownership of the patents from XACP providing it with standing in the underlying case.

2. *Transfer of Title under Massachusetts Law*

In the instant case the controlling state law is the Massachusetts UCC. Massachusetts UCC § 9-610 permits a secured party to sell the collateral after default, in a commercially reasonable manner, and that same party may purchase the collateral at a public disposition. Section 9-617 of the UCC states that once a secured party disposes of collateral after default, the transferee for value takes all of the debtor's rights in the collateral. Mass. Gen. Laws ch. 106, § 9-617(a)(1) (2009). Because XACP foreclosed

on the patents-in-suit in conformity with these provisions, XACP obtained title to the patents on July 14, 2003.

In the XACP Security Agreement, Ozro gave XACP a security interest in the patents-in-suit as collateral security. Upon default, XACP could exercise all rights pursuant to the Massachusetts UCC and "sell, lease, or otherwise dispose" of the Collateral. The XACP Agreement also contained a provision dictating the sale of the Collateral, including a clause permitting XACP to purchase the Collateral at a public sale. In accordance with the Security Agreement and the Massachusetts UCC, XACP gave Ozro at least seven days' notice of the sale, disposed of the Collateral through a public auction, and purchased the Collateral at the same auction. Therefore, consistent with sections 9-610 and 9-617, XACP received all of Ozro's rights in the Collateral, making *1381 XACP the title-holder of the patents-in-suit after foreclosure.

Despite this clear authority, Appellants make much of 35 U.S.C. § 154, which controls the content and term of a patent. Section 154(a)(1) states, "Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention. . . ." 35 U.S.C. § 154(a)(1) (2006). Accordingly, Appellants contend that patents can only be owned by three categories of individuals—the patentee, his heirs, or his assigns. Appellants assert the holding in *Akazawa* was correct, but is not controlling because the class of persons receiving ownership through operation of

law in Akazawa were heirs—a class within § 154(a)(1)—but no heirs or assigns exist in the present case. We find this argument unpersuasive. Section 154 does not restrict patent ownership to these three classes of individuals, and moreover, this language fails to specifically address transfers of patent ownership.

Appellants also claim that, regardless of sections 9-610 and 9-617, a writing requirement exists in the Massachusetts UCC. To find such a requirement, Appellants suggest section 9-619 requires a writing where there is a transfer of any patent collateral, whether the transfer is by assignment or operation of law. We find this argument lacking. Section 9-619 permits parties to prepare a Transfer Statement, which creates "a simple mechanism for obtaining record or legal title, for use primarily when other law does not provide one." Mass. Gen. Laws ch. 106, § 9-619 cmt. 2 (2009). This document "entitles the transferee to . . . all rights of the debtor in the collateral." *Id.* § 9-619(b). According to comment two in section 9-619, the purpose of a Transfer Statement is to make title clear in circumstances where title is transferred to a third party after a secured party has exercised its rights, and to provide potential buyers of collateral subject to a registration system a writing reflecting ownership. Nothing in the language of section 9-619 evinces the requirement that a writing must exist to transfer patent rights through operation of law, only that such a writing is recognized under the Massachusetts UCC. Based on the plain language of

the provision, such a writing is permissible, not mandatory.

C. *No Preemption of State Law*

Appellants claim if Massachusetts law is found to allow transfers of patent ownership without a writing, then federal preemption must occur pursuant to 35 U.S.C. § 261; however, Appellants are incorrect. Section 261 speaks only to assignments of patents; there exists no federal statute requiring a writing for all conveyances of patent ownership. Therefore, no federal law preempts the use of the Massachusetts UCC foreclosure provisions to transfer patent ownership by operation of law. Consequently, Appellants' preemption argument lacks merit.

D. *Public Policy Justifications*

The policy justifications for permitting transfers of patent ownership through operation of law without a writing also support our holding. First, if foreclosure on security interests secured by patent collateral could not transfer ownership to the secured creditor, a large number of patent titles presently subject to security interests may be invalidated. Any secured creditor who maintained an interest in patent collateral would be in danger of losing its rights in such collateral. Second, by restricting transfer of patent ownership only to assignments, the value of patents could significantly diminish because patent owners would be limited in their ability to use patents as collateral or pledged security. Lastly, it would be impractical to require

*1382 secured parties to seek out written assignments following foreclosure from businesses that may have ceased to exist.

We need not address the pre or post-default documents submitted by Appellee to determine if a writing exists which transferred title to XACP. By following proper foreclosure procedures, XACP became the owner of the patents-in-suit. Therefore, XACP's assignment to Sky of all of its rights, title, and interest in the patents-in-suit made Sky the owner of the same, and the proper party to bring the underlying infringement action.

III. CONCLUSION

For the aforementioned reasons, we affirm.

AFFIRMED.

IV.

COSTS No costs.

Appendix B

Sky Technologies LLC v. SAP AG,
296 Fed. Appx. 10, 2008 WL 4491894
(Fed. Cir. 2008)

United States Court of Appeals,
Federal Circuit.
SKY TECHNOLOGIES LLC, Plaintiff-Respondent,
v.
SAP AG and SAP AMERICA, INC., Defendants-Petitioners.
Misc. No. 879.

Sept. 10, 2008.

***10** On Petition for Permission to Appeal pursuant to 28 U.S.C. § 1292(b) from the United States District Court for the Eastern District of Texas in case no. 2:06-CV-440, Judge David Folsom.

Before RADER, Circuit Judge, FRIEDMAN, Senior Circuit Judge, and SCHALL, Circuit Judge.

ORDER

SCHALL, Circuit Judge.

****1** SAP AG and SAP America, Inc. (SAP) petition for permission to appeal an order certified by the United States District Court for the Eastern District of Texas as one involving a controlling issue of law as to which there is substantial ground for difference of opinion and for which an immediate

appeal may materially advance the ultimate termination of the litigation. SAP also moves to stay proceedings in the Texas district court, pending disposition of this petition by this court. Sky Technologies LLC opposes.

Sky filed this patent infringement suit against SAP in the Eastern District of Texas. SAP moved to dismiss the suit and alleged that Sky lacked standing. SAP alleged that there was no written assignment agreement to Cross Atlantic Capital Partners (XACP) when XACP purchased patents in a foreclosure sale involving patents owned by Ozro, Inc., and thus XACP could not in turn ultimately assign its interests to Sky. Citing this court's recent decision in *11 *Akazawa v. Link New Technology International, Inc.*, 520 F.3d 1354 (Fed. Cir. 2008), the Texas district court denied the motion to dismiss and held that under state law title of the patent transferred by operation of law and no written assignment was needed. Meanwhile, in the United States District Court for the District of Massachusetts, SAP sued the entities that owned the patent before the foreclosure sale, seeking a declaratory judgment concerning who owns the patents and declaratory judgments of noninfringement, invalidity, and unenforceability. The Massachusetts district court denied a motion to transfer that case to the Texas district court.

The Texas district court subsequently certified for permissive appeal its order denying SAP's motion to dismiss, stating that a substantial ground for difference of opinion may exist concerning whether a transfer of title through operation of law may apply

in situations that do not involve heirs or probate law. In *Akazawa v. New Link Tech. Int'l, Inc.*, 520 F.3d 1354 (Fed. Cir. 2008), we held ownership of a patent may be changed by operation of probate law. In *Akazawa*, we remanded for the district court to determine whether under Japanese law a patent was transferred to the estate, noting that pursuant to statute a patent may be granted to "the patentee, his heirs, or assigns." *See* 35 U.S.C. 154(a)(1). We noted that "there is nothing that limits assignment as the only means for transferring patent ownership. Indeed, the case law illustrates that ownership of a patent may be changed by operation of law." *Akazawa*, 520 F.3d at 1356. In contrast, 35 U.S.C. § 261 requires that all assignments be in writing.

Ultimately, this court must exercise its own discretion in deciding whether it will grant permission to appeal interlocutory orders certified by a trial court. *See In re Convertible Rowing Exerciser Patent Litigation*, 903 F.2d 822 (Fed. Cir. 1990); 28 U.S.C. § 1292(d)(2) ("the Federal Circuit may, in its discretion, permit an appeal to be taken from such order"). We determine that granting the petition in these circumstances is warranted.

**2 Concerning SAP's request to stay proceedings in the Texas district court, we note that the Texas district court stated that if this court grants the petition for permission to appeal, it would consider staying its proceedings. We deem the better course is for the Texas district court to consider that issue in the first instance.

Accordingly,

IT IS ORDERED THAT:

(1) The petition for permission to appeal is granted.

(2) The request to stay proceedings in the Texas district court is denied without prejudice.

Appendix C

***Sky Technologies LLC v. SAP AG*, 2008 WL 2775487 (E.D. Tex. 2008)**

United States District Court,
Eastern District of Texas,
Marshall Division.
SKY TECHNOLOGIES LLC, Plaintiff,
v.
SAP AG, SAP America, Inc. and Oracle Corporation, Defendants.
Civil Action No. 2:06-CV-440 (DF).

July 15, 2008.

ORDER

DAVID FOLSOM, District Judge.

*1 Currently before the Court is SAP AG and SAP America, Inc's Motion for Reconsideration Or, In the Alternative, Certification of Question for Interlocutory Appeal (Dkt. No. 214). A hearing on this matter was held on July 9, 2008. Having considered the arguments and briefing on this matter the Court finds that the motion should be **GRANTED-IN-PART** and **DENIED-IN-PART.**

I. BACKGROUND

After several rounds of briefing (Dkt. Nos. 132, 147, 155, 171, 186, 189, 198, 200, 204, and 206) regarding Defendants' Rule 12(b) (1) Motion to Dismiss for Lack of Standing (Dkt. No. 132), the Court issued an order on June 4, 2008 (hereinafter "June Order") (Dkt. No. 212) finding that Sky Technologies LLC ("Sky") held title to the patents-in-suit. The June Order found that title was transferred by operation of Massachusetts state law after a foreclosure sale despite the lack of an assignment in writing. Dkt. No. 212 at 19.[1] The June Order also denied Ozro's intervention as moot.[2]

In the meantime, on April 11, 2008, Defendants filed a declaratory judgment action against Ozro in Massachusetts for non-infringement, invalidity, unenforceability and ownership of the same patents-in-suit. Ozro moved to transfer venue from Massachusetts to the Eastern District of Texas, but this motion was denied on June 3, 2008. A scheduling order was entered and Judge Young set a trial date of March 2009.

On June 13, 2008, Defendants brought this motion to reconsider, citing that the June Order conflicts with the assignment provision of 35 U.S.C. §

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[1] All pages numbers reference the docket header page numbers.

[2] Ozro is the party that Defendants contend holds title to the patents. Defendants contend that because standing must exist at inception of the litigation, the intervention of Ozro would not resolve the problem of standing.

261 and case law from the Supreme Court and Federal Circuit. Dkt. No. 214 at 5. Alternatively, Defendants seek certification for interlocutory appeal. *Id.* at 6.

II. RECONSIDERATION

A. Parties' Position

Defendants argue that the June Order is manifestly erroneous. Dkt. No. 214 at 7. Defendant's state that the June Order contradicts *Ager v. Murray*, 105 U.S. 126, 131, 26 L.Ed. 942 (1881) and *Akazawa v. Link New Technology Int'l, Inc.*, 520 F.3d 1354 (Fed. Cir. 2008). Dkt. No. 214 at 7. Defendants contend that the Federal Circuit's decision in *Akazawa* only applies to "heirs" under 35 U.S.C. § 154(a)(1) and not "assigns" who must secure legal title through a writing under 35 U.S.C. § 261. Dkt. No. 214 at 4. Defendants alternatively argue that there are "substantial grounds for a difference of opinion regarding whether the foreclosure provisions of the Massachusetts UCC can or do vest legal title in a patent upon foreclosure without a written assignment." *Id.* at 10 (citing Mass. Gen. Laws ch. 106, §§ 9-610, 9-617, 9-619).

Plaintiff responds that a motion for reconsideration is used sparingly and only appropriate where the moving party can point to controlling law or evidence that would alter the conclusion of the court. Dkt. No. 225 at 3 (citing *Templet v. HydroChem Inc.*, 367 F.3d 473, 479 (5th Cir. 2004); *Applera Corp. v. MJ Research, Inc.*, 404 F.

Supp. 2d 422, 423-24 (D. Conn. 2005)). Plaintiff argues that Defendants do not raise new issues, uncover new evidence, or demonstrate a "manifest error of law or fact." Dkt. No. 225 at 3-4.

B. Discussion

*2 The Court has already considered two rounds of briefing, sought clarification of the issues from the parties, and issued two orders evaluating the same cases that Defendants raise in their motion to reconsider. The Fifth Circuit described the standard for a motion to reconsider:

> A Rule 59(e) motion "calls into question the correctness of a judgment." *in re Transtexas Gas Corp.*, 303 F.3d 571, 581 (5th Cir. 2002). This Court has held that such a motion is not the proper vehicle for rehashing evidence, legal theories, or arguments that could have been offered or raised before the entry of judgment. *Simon v. United States*, 891 F.3d 1154, 1159 (5th Cir. 1990). Rather, Rule 59(e) "serves the narrow purpose of allowing a party to correct manifest errors of law or fact or to present newly discovered evidence." *Walman v. Int'l Paper Co.*, 875 F.2d 468, 473 (5th Cir. 1989) (internal quotations omitted). Reconsideration of a judgment after its entry is an extraordinary remedy that should be used sparingly. *Clancy v. Employers Health Ins. Co.*, 101 F. Supp. 2d 463, 465 (E.D. La. 2000) (citing 11 Charles A. Wright, Arthur R. Miller & Mary Kay Kane, Federal Practice & Procedure § 2810.1, at 124 (2d ed. 1995)).

Templet v. Hydrochem Inc., 367 F.3d 473, 478-79 (5th Cir. 2004).

The Court finds that Defendants have not raised any new issue or presented new evidence. Therefore, this Court does not find that the findings in the June Order warrants reconsideration and **DENIES** the request for reconsideration.

III. INTERLOCUTORY APPEAL

A. Parties' Positions

Defendants alternatively argue that if the Federal Circuit agrees with Defendants this Court could avoid a needless trial involving the wrong parties. Dkt. No. 214 at 14.

Plaintiff contends that Defendants are seeking interlocutory appeal as a tactical maneuver. Dkt. No. 225 at 2. Plaintiff notes that it filed a declaratory judgment action in Massachusetts and is merely seeking to delay the trial here so that it may proceed in Defendants' chosen forum. *Id.* Plaintiff argues that an interlocutory appeal under 28 U.S.C. § 1292(b) is a "departure from the normal rule that only final judgment are appealable, and therefore must be construed narrowly." *Id.* at 5 (quoting *James v. Price Stern Sloan, Inc.*, 283 F.3d 1064, 1068 (9th Cir. 2002)). Citing *Cybor Corp. v. FAS Technologies Inc.*, 138 F.3d 1448, 1479 (Fed. Cir. 1998) for the proposition that the Federal Circuit has refused every request for interlocutory appeal of claims construction orders, Plaintiff argues that "no federal court rejects requests for interlocutory appeal

more frequently than the Federal Circuit." Dkt. No. 225 at 6.

Defendants explain that there is no "gamesmanship" in filing in Massachusetts. Dkt. No. 232 at 7. Defendants contend that it filed its declaratory judgment only after Ozro threatened to sue defendants. *Id.* at 8 (citing Sky's Cur-Reply [sic] to SAP's Motion to Dismiss, Dkt. No. 171 at 3). Defendants state that they could not bring the action in the Eastern District of Texas because Ozro and co-defendant XACP are not subject to personal jurisdiction and venue here. *Id.* Defendants state that the "Federal Circuit has accepted interlocutory appeals in many cases involving jurisdictional defects, including standing." *Id.* at 11 (citing *Int'l Gamco, Inc. v. Multimedia Games, Inc.*, 206 Fed. Appx. 978 (Fed. Cir. 2006); *Air Measurement Technologies, Inc. v. Akin Gump Strauss Hauer & Feld, L.L.P.*, 504 F.3d 1262, 1267 (Fed. Cir. 2007); *Voda v. Cordis Corp.*, 476 F.3d 887, 889-90 (Fed. Cir. 2007); *U.S. Philips Corp. v. Sears Roebuck & Co.*, 55 F.3d 592, 593, 597 (Fed. Cir. 1995); *Bath Iron Works Corp. v. U.S.*, 20 F.3d 1567, 1570 n. 1 (Fed. Cir. 1994); *Exxon Chemical Patents, Inc. v. Lubrizol Corp.*, 935 F.2d 1263, 1265-66 (Fed. Cir. 1991); *Johns-Manville Corp. v. U.S.*, 855 F.2d 1556, 1557 (Fed. Cir. 1988); *U.S. v. Connolly*, 716 F.2d 882, 883 (Fed. Cir. 1983)). Defendants further cited a Fifth Circuit decision for the proposition that interlocutory appeal was an appropriate remedy even on the eve of trial. *Id.* (quoting *Edwards v. Cass County*, 919 F.2d 273, 276 (5th Cir. 1990)).

B. Discussion

*3 Title 28 § 1292(b) provides a means of appealing from interlocutory orders that are otherwise not appealable:

> When a district judge, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation, he shall so state in writing in such order. The Court of Appeals . . . may thereupon, in its discretion, permit an appeal to be taken from such order, if application is made to it within ten days after the entry of the order.

28 U.S.C. § 1292(b). This section "provides for review of an *order* rather than review of a particular *question*, [so the Circuit Court of Appeals] is not restricted to the questions specified by the district court but 'may address any issue fairly included within the certified order.'" *Brabham v. A.G. Edwards & Sons Inc.*, 376 F.3d 377, 380 (5th Cir. 2004) (quoting *Yamaha Motor Corp., USA v. Calhoun*, 516 U.S. 199, 205, 116 S.Ct. 619, 133 L.Ed.2d 578 (1996)).

Certification "is not available as a means to review . . . for incorrect evaluation of proper factors." *A. Olinick & Sons v. Dempster Bros., Inc.*, 365 F.2d 439, 443 (2d Cir. 1966); *see also Humble Oil & Ref. Co. v. Bell Marine Serv., Inc.*, 321 F.2d 53, 57 (5th

Cir. 1963). "A question which requires a factual as well as legal decision is not suitable for interlocutory review." *Speizman Knitting Mach. Co. v. Terrot Strickmaschinen GmBH*, 505 F. Supp. 200, 202 (D.N.C. 1981). "[A]ppellate jurisdiction under § 1292(b) extends only to interlocutory orders involving a controlling question of law." *Withhart v. Otto Candies, L.L.C.*, 431 F.3d 840, 841 (5th Cir. 2005) (citations and quotations omitted). Section 1292(b) is meant to be applied sparingly in that only "exceptional circumstances [will] justify a departure from the basic policy of postponing appellate review until after the entry of a final judgment." *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 475, 98 S.Ct. 2454, 57 L.Ed.2d 351 (1978).

The Court finds that substantial grounds for difference of opinion exist regarding the question of whether a transfer of title through operation of law without a written assignment may apply in situations that do not involve heirs or probate law. The Court notes that the certification by the Federal Circuit would create efficiencies for not only this court but for Judge Young as well. In addressing Plaintiff's concern that Defendants are seeking to escape this forum in a tactical maneuver, Defendants' counsel sent a letter to the Court stating:

> During today's hearing, the Court asked whether, upon this Court's certification for interlocutory appeal of its June 4, 2008 Order, SAP would agree to seek a stay of its related declaratory judgment action in the District of Massachusetts.

> I have now consulted with my client, and the answer to your question is yes.

*4 Letter from Paul S. Grewal to David Folsom (July 9, 2008).

The Court notes that 28 U.S.C. § 1292(b) states that the Court of Appeals may permit an appeal "*Provided, however,* That application for an appeal hereunder shall not stay proceedings in the district court unless the district judge or the Court of Appeal or a judge thereof shall so order." (emphasis in original). At this time, the Court will not stay the proceedings. The parties are obligated to meet all scheduling deadlines. The Defendants are not required to request a stay of proceedings in Judge Young's action. The Court will reassess a stay of the proceedings in this action should the Federal Circuit grant the request for interlocutory appeal. If the Court grants a stay in this action, the Defendants will then be obligated to request a stay in the Massachusetts action, though the Court is mindful that it is in Judge Young's discretion whether to grant the request for stay. Therefore, because the Court finds that the resolution of this issue would materially advance the ultimate termination of this litigation, the Court **GRANTS** this portion of Defendants' motion.

IV. CONCLUSION

Therefore, for the foregoing reasons the Court **DENIES-IN-PART** SAP AG and SAP America, Inc's Motion for Reconsideration and **GRANTS-IN-PART**

Defendants' Motion for Certification of Question for Interlocutory Appeal (Dkt. No. 214).

The Court's Order of June 4, 2008 (Dkt. No. 212) is hereby **CERTIFIED** for interlocutory appeal pursuant to 28 U.S.C. § 1292(b).

It is so **ORDERED.**

Appendix D

Sky Technologies LLC v. SAP AG, 2008 WL 5234644 (E.D. Tex. 2008)

United States District Court,
Eastern District of Texas,
Marshall Division.
SKY TECHNOLOGIES LLC, Plaintiff,
v.
SAP AG, SAP America, Inc. and Oracle Corporation, Defendants.
Civil Action No. 2:06-CV-440 (DF).

June 4, 2008.

ORDER

DAVID FOLSOM, District Judge.

*1 Currently before the Court is Defendants' Rule 12(b)(1) Motion to Dismiss for Lack of Standing (Dkt. No. 132) and related briefing (Dkt. Nos. 147, 155, 171, 186, 189). The Court held a hearing regarding this matter on February 28, 2008. Dkt. No. 187. In a March 20, 2008 Order (the "March Order"), the Court requested additional briefing on this matter. Dkt. No. 193 at 19. Thus, currently before the Court is Sky's supplemental brief (Dkt. No. 198) and related briefing (Dkt. Nos. 200, 204, and 206). After considering the arguments and the briefing,

the Court **DENIES** Defendants' Rule 12(b)(1) Motion to Dismiss for Lack of Standing (Dkt. No. 132).

I. BACKGROUND

A. Factual Background[1]

On October 17, 2006, Plaintiff Sky filed a claim for infringement of U.S. Patent Nos. 6,141,653 (the "'653 Patent"), 6,336,105 (the "'105 Patent"), and 6,338,050 (the "'050 Patent"). Complaint, Dkt. No. 1. Jeffrey Conklin ("Conklin"), David Foucher, and Daniel Foucher are the named inventors of these patents. United States Patent Nos. 7,162,458 (the "'458 Patent") and 7,149,724 (the "'724 Patent") were later added. Second Amended Complaint, Dkt. No. 44. Conklin, David Foucher, Daniel Foucher, and William J. Flanagan are listed as the inventors of these two patents.

The inventors of all the above five patents-in-suit assigned their rights to TradeAccess, Inc. ("TradeAccess"). Dkt. No. 132 at 7[2] (citing Dkt. No. 132, Exhibits B-F); Dkt. No. 147 (citing Dkt. No. 132, Exhibits B-F). Each of these assignments was filed in the United States Patent & Trademark Office ("USPTO"). Dkt. No. 132 at 8. TradeAccess was formed by Conklin. Dkt. No. 132 at 8; Dkt. No. 147 at 2. On April 2, 2001, an Intellectual Property

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[1] This background was taken from this Court's previous March 20, 2008 Order. Dkt. No. 193 at 1-4.

[2] All page numbers refer to the document header page numbers.

Security Agreement was made between TradeAccess and Silicon Valley Bank where a loan was secured interests to TradeAccess's intellectual property. Dkt. No. 132 at 8 (citing Dkt. No. 132, Exh. G (the "SVB Agreement"); Dkt. No. 147 (citing Dkt. No. 132, Exh. G). The agreement contained a clause stating that the IP Agreement would be "governed by and construed in accordance with the laws of the Commonwealth of Massachusetts." SVB Agreement at 7. On April 3, 2001, an Intellectual Property Security Agreement was made between TradeAccess and Cross Atlantic Capital Partners, Inc. ("XACP"), as agent for Cross Atlantic Technology Fund, L.P. ("XATF"), The Co-Investment 2000 Fund, L.P. ("CI 2000"), and 3i Technology Partners L.P. ("3i"). Dkt No. 132 at 8; Dkt. No. 147 at 3; Dkt. No. 132, Exh. H (the "XACP Agreement"). XATF, CI 2000 and 3i received first priority in TradeAccess's intellectual property, except as to liens and security interests granted to SVB. Dkt. No. 132, Exh. H at 2. This second agreement also had a Massachusetts choice of law clause. XACP Agreement at 8. These documents were filed with the USPTO. Dkt. No. 132 at 8.

TradeAccess changed its name to Ozro on May 3, 2001 by filing papers with the State of Delaware Office of the Secretary of State. Dkt. No. 132 at 8 (citing Dkt. No. 132, Exh. L). On December 5, 2002, XATF and CI 2000 "entered into a Purchase Agreement with 3i, wherein 3i assigned all rights in its agreements with Ozro, including the Intellectual Property Security Agreement. Dkt. No. 147 at 3. On December 18, 2002, Silicon Valley Bank entered into a Non-Recourse Assignment with XATF and CI 2000,

as tenants in common with 2/3 undivided interest to XATF and 1/3 undivided interest to CI 2000, wherein Silicon Valley Bank transferred its rights to the secured loan agreement with Ozro. Dkt. No. 147 (citing Dkt. No. 132, Exh. I at 1). Thus, at this point, the interest was consolidated to XATF and CI 2000.

*2 Under a Settlement Agreement, effective as of June 4, 2003, XACP, CI 2000, and XATF sought to sell to Conklin "certain intellectual property and assets of Ozro, Inc. (f/k/a/ Trade Access, Inc.)." Dkt. No. 132 at 8; Dkt. No. 147 at 4; Dkt. No. 132, Exh. M. The Agreement specified that the Intellectual Property would be purchased by the new entity "Newco" created by Conklin. Dkt. No. 132, Exh. M at 7. The Agreement stated:

> *Public Auction.* The XACP Entities [XACP, CI 2000, and XATF] shall use their best efforts to obtain title to the Intellectual Property for purposes of a transfer from the XACP Entities to Newco, by selling all of the XACP Entities' rights in and to the Secured Intellectual Property by Public Auction within sixty (60) days after the Effective Date. The XACP Entities shall provide Conklin with the opportunity to review and approve the terms and notices relating to the Public Auction prior to their release. At the Public Auction, the XACP entities, or their designee, will credit bid up to $4,031,844, as may be required to purchase the Intellectual Property, including but not limited to

> the right to sue for past infringement or misappropriation of the Patents, covered by security interests held by the XACP Entities. . . .

Dkt. No. 132, Exh. M at 7-8. The $4,031,844 was the "amount owed by Ozro to XACP." Dkt. No. 132 at 8.

On July 14, 2003, a public auction was held regarding the Ozro Intellectual Property. According to the auctioneer:

> The intellectual property assets were offered for sale in two offerings. The first sale was to foreclose on the security interest originally held by Silicon Valley Bank that was subsequently assigned to Cross Atlantic. Cross Atlantic foreclosed on this first priority security interest as assignee of this interest. The second sale was to foreclose on the security interest originally held by Cross Atlantic. Cross Atlantic was the only bidder and it, through its representative Craig Vaughn, purchased the assets for $100,000.

Dkt. No. 132, Exh. N (letter from Atlantic Auctions to counsel for Ozro).

Therefore, XACP foreclosed on both of the security interests. Defendants state that despite this sale, there was no written instrument assigning the Ozro patents to XACP. Dkt. No. 132 at 9. On July 23, 2003 a written assignment was made by XACP to Whitelight Technology, LLC, a predecessor to Sky, for the rights to multiple patents, including the '653 Patent, the '050 Patent, the '105 Patent, as well as, U.S. Application No. 09/702,128, which would later become the '458 Patent, and U.S. Application No. 09/702,062, which would later become the '724 Patent. Dkt. No. 132, Exh. O at 1. This assignment had a choice of law clause for the assignment to be construed pursuant to the laws of the Commonwealth of Pennsylvania. *Id.* at 3. On November 1, 2007, Ozro, Inc. submitted a Certificate of Dissolution to the State of Delaware, which was authorized on April 24, 2007 by Conklin. Dkt. No. 132, Ex. P.

B. Procedural Background

*3 Now before the Court, Defendants contest the assignment made on July 22, 2003 from XACP to Whitelight Technology, LLP as improper because Defendants aver that Ozro never assigned the patents-in-suit to XACP in any instrument in writing after the July 14, 2003 foreclosure. Sky argues that the security agreements and their subsequent recording in the USPTO served as assignments. Ozro has filed a motion to intervene (Dkt. No. 146) in order to resolve the standing issue.

The primary disagreement between Sky and the Defendants was whether the April 2001 Security

Agreements, which were recorded and later foreclosed, were sufficient to satisfy Section 261. Defendants had argued that Ozro was obligated to transfer title, after the July 14, 2003 foreclosure, through a written assignment pursuant to Section 261. *See* Dkt. No. 132 at 9. The Court distinguished conflicting cases proffered by the parties. Sky relied on the Supreme Court decision in *Waterman v. Mackenzie* for the proposition that the recording of a security interest "operates as delivery of title to satisfy § 261." Dkt. No. 147 at 5. Defendants relied on *In re Cybernetic* for the proposition that security interests do not qualify as assignments under Section 261." Dkt. No. 132 at 12. In the previous March Order, this Court held that the Ninth Circuit in *In re Cybernetic* merely held that Section 261 only requires the recording of ownership interests in a patent and that *Waterman* does not broadly stand for the proposition that a security interest recorded with the USPTO effectively transfers title to the secured lender under Section 261. Dkt. No. 193 at 14-17.

The Court requested further briefing, asking the parties to address: (1) the effect of any evidence after the foreclosure; (2) whether the provisions of the Security Agreement granted substantial rights as to effect a transfer of title; and (3) the effect of a security agreement that contains provisions to transfer of title but is not effective unless defaulted upon. Dkt. No. 193 at 18.

II. LEGAL PRINCIPLES

"The burden of demonstrating standing falls to [Plaintiff], as '[i]t is well established . . . that before a

federal court can consider the merits of a legal claim, the person seeking to invoke the jurisdiction of the court must establish the requisite standing to sue.'" *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026 (Fed. Cir. 1995) (quoting *Whitmore v. Arkansas*, 495 U.S. 149, 154, 110 S.Ct. 1717, 109 L.Ed.2d 135 (1990); citing *Sicom Sys., Ltd. v. Agilent Tech., Inc.*, 427 F.3d 971, 975-76 (Fed. Cir. 2005)).

One seeking damages for infringement of a patent must hold legal title to that patent. *See, e.g., Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538 (Fed. Cir. 1995); *Speedplay, Inc. v. Bebop*, 211 F.3d 1245, 1249-50 (Fed. Cir. 2000) (citing 35 U.S.C. §§ 100(d), 261, 281). Under Section 261:

> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States....

*4 An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

A party without title has no standing to bring suit. *Filmtec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568 (Fed. Cir. 1991); *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995) ("The right to sue for infringement is ordinarily an incident of legal title to the patent."). "Further, all co-owners must, ordinarily, consent to join as plaintiffs in an infringement suit." *DDB Techs., LLC v. MLB Advanced Media, LP*, 465 F. Supp. 2d 657, 661 (W.D. Tex. 2006). Legal title, which confers standing, must be held at the inception of the lawsuit. *Paradise Creations*, 315 F.3d at 1308 (citing *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 570 n. 5, 112 S.Ct. 2130, 119 L.Ed.2d 351 (1992) (plurality opinion)); *Gaia Technologies*, 93 F.3d at 777. "The party asserting that it has all substantial rights in the patent 'must produce . . . written instruments documenting the transfer of proprietary rights.'" *Mentor H/S, Inc.*, 240 F.3d at 1017 (quoting *Speedplay*, 211 F.3d at 1250). Section 100(d) provides that a "'patentee' includes not only the patentee to whom the patent was issued but also the successor in title to the patentee." Therefore, the chain of title must be followed in order to determine the party holding legal title to the patent. *See Enzo*, 134 F.3d at 1093; *Gaia Technologies*, 93 F.3d at 777.

"In examining a Rule 12(b)(1) motion, the Court is empowered to consider matters of fact which may be in dispute." *Id.* A court may not grant dismissal "unless it appears certain that the plaintiffs cannot prove any set of facts in support of their claim which would entitle them to relief," and a court "must take as true all of the allegations of the

complaint and the facts as set out by the [plaintiffs]." *Saraw Partnership v. U.S.*, 67 F.3d 567, 569 (5th Cir. 1995).

III. MOTION TO DISMISS

Sky has offered several theories in defense against the motion to dismiss. Sky initially argued that a security interest that is recorded in the PTO effects transfer of title. Dkt. No. 147 at 1. Sky stated that the Agreements transferred a title and the rights were slowly consolidated through various assignment agreements. *Id.* at 3. However, as explained above, the Court rejected this argument, stating that the *Waterman* case cited by Sky related to a dispute regarding a subsequent purchase or mortgagee. March Order at 17.

Sky now argues that transfer of title to the patents does not require a written assignment. Dkt. No. 204 at 1. Moreover, Sky states that if a written assignment was required, the Security Agreements are written assignments that are actually conditional assignments that become effective upon default. Dkt. No. 198 at 3. Therefore, Sky argues that the transfer of title occurred at the foreclosure. *Id.* at 5.

***5** The first issue the Court addresses is whether a transfer may be effected through an operation of law.

A. Transfer by Operation of Law and Choice of Law

1. Parties' Positions

Defendants cite to a recently issued Federal Circuit authority, *Akazawa v. New Link Technology International, Inc.*, 520 F.3d 1354 (Fed. Cir. 2008), arguing that the Federal Circuit affirmed the "requirement that transfer by assignment under § 261 'be in writing.'" Dkt. No. 200 at 14 n. 46. Defendants state that the question of automatic assignment is a matter of federal and not state law. Dkt. No. 200 at 14 (citing *DDB Techs. L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008)). Defendants further argue that a debtor must "convey written title or written title must be ordered conveyed by a duly-authorized court." *Id.* at 14 (citing *Ager v. Murray*, 105 U.S. 126, 131, 26 L.Ed. 942 (1881)).

Sky argues that new Federal Circuit authority, *Akazawa*, provides that title to patents can pass by operation of law and no written assignment under § 261 is necessary. Dkt. No. 204 at 1 (citing *Akazawa*, 520 F.3d at 1356-57). Sky contends that Defendants argue that federal law applies in order to advance *Ager*. Dkt. No. 204 at 4. Sky believes that *Ager* is inapplicable and distinguishable because *Ager* was decided before the creation and adoption of the Uniform Commercial Code ("UCC"). *Id.* at 4-5.

Defendants reply that Section 261 requires that assignments be in writing. Dkt. No. 206 at 8.

Defendants contend that courts have long recognized that state probate law automatically vests legal title in a patentee's heirs and interprets the holding in *Akazawa* to be limited to extending those decisions to allow the probate law of another nation to similarly vest legal title in an heir without a written assignment. *Id.* at 8 (citing *Akazawa*, 520 F.3d at 1357-58; *H.M. Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1558 (Fed. Cir. 1983); *Winkler v. Studebaker Bros. Mfg. Co.*, 105 F. 190, 190-91 (C.C.S.D.N.Y. 1900)). Defendants clarify that they do "not contend, as Sky represents, 'that the ***only*** means by which title to patents transfers is an assignment in writing or court Order compelling assignment'" rather that "where-as here following XACP's purported foreclosure on Ozro's patents-no state law operates to vest legal title to the patents, a plaintiff must obtain a written assignment pursuant to Section 261 in order to establish its legal title and therefore standing to pursue any claim for patent infringement." *Id.* at 8-9.

2. Analysis

Defendants and Sky fundamentally agree on the general holding of *Akazawa* that "there is nothing that limits assignment as the only means for transferring patent ownership. Indeed, the case law illustrates that ownership of a patent may be changed by operation of law." *Akazawa*, 520 F.3d at 1356. The primary difference between Defendants and Sky's argument is that Defendants presume that there is no state law that operates to vest legal title to the patents and Defendants conclude that legal

title must therefore be established through a written assignment pursuant to Section 261 or a Court order. *See* Dkt. No. 206 at 9.

*6 In *Akazawa*, the defendant challenged the standing of the plaintiff. The inventor of the patent in interest, U.S. Patent No. 5,615,761 ("the '716 patent"), had died intestate, and the heirs, the inventors' wife and two daughters, consolidated their rights to a single daughter through an "Inheritance Agreement," and the daughter in turn assigned the rights under the patent to the plaintiff. *Akazawa*, 520 F.3d at 1355. The defendant argued that Section 261 "mandates a writing where there is a transfer upon death in order for there to be a proper assignment between two entities." *Id.* Like in this case, the defendant stated that the plaintiff did not own the patent because "there was never a writing transferring the '716 patent from the estate of [the inventor] to [the inventors' heirs], the inheritance agreement between [the inventors' heirs] and the assignment between [the daughter] and [the plaintiff] notwithstanding." *Id.* The Federal Circuit held that "ownership of a patent may be changed by operation of law." *Id.* at 1356.

Likewise, the Court determines that ownership of a patent may be changed by operation of law, and thus, the Court must determine whether the Security Agreement and subsequent foreclosure transferred the patent by operation of law.

Defendants argue that federal law, not state law, applies in automatic assignments, and argue that because there was no written assignment,

federal law, as posited by *Ager*, requires a Court order. *See* Dkt. No. 200 at 14. Defendants rely on *DDB Technologies* for the proposition that federal law would apply in this case. *Id.* In *DDB Technologies*, the defendant had obtained a license to the patents-in-suit from the former employer of one of the inventors, who helped to form the plaintiff company. *DDB Technologies*, 517 F.3d at 1288. The district court had to evaluate whether, under the employment agreement between the former employer and the employee/inventor, there was an automatic assignment of the inventor's rights. *Id.* The Federal Circuit first determined that "[a]lthough state law governs the interpretation of contracts generally, the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases" and concluded that this was a matter of federal law. *Id.* at 1289-90.

On the other hand, Judge Newman's dissent stated that the panel majority was overreaching and contrary to law and precedent and Judge Newman narrowly stated the majority's holding as relating to "interpretation of employment contracts, including clauses establishing employer-employee obligations with respect to inventions and patents." *Id.* at 1296. Here, there is not an employment contract, but rather a security agreement. As explained above, the *Akazawa* case addressed the analogous question of whether there was a break in the chain of title due to the lack of written assignment pursuant to Section 261. In *Akazawa*, the Federal Circuit held that the "case law is clear that state law, not federal law,

typically governs patent ownership." *Akazawa*, 520 F.3d at 1357 (citing *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1572 (Fed. Cir. 1997). The Federal Circuit determined that resolution of the issues required an interpretation of Japanese intestacy law. *Id.* at 1358.

*7 The Court determines that state law, not federal law, should govern this case. Here, both Security Agreements stated that Massachusetts choice of law would apply. SVB Agreement at 7; XACP Agreement at 8. Therefore, the Court applies Massachusetts law, specifically the Massachusetts UCC (i.e. Mass. Ann. Laws ch. 106 Art. 9), to determine whether there was a transfer of title by operation of law.

B. Transfer of Title

1. Parties' Positions

Sky argues that "numerous courts have observed the passing of title to intellectual property upon a debtor's default." Dkt. No. 198 at 4 (citing *Haymaker Sports, Inc. v. Turian*, 581 F.2d 257, 261 (C.C.P.A. 1978); *Health Discovery Corp. v. Ciphergen Biosystems, Inc.*, No. 2:06-cv-260, 2007 WL 128283, at *1 (E.D. Tex. Jan. 11, 2007); *digiGan, Inc. v. iValidate, Inc.*, No. 02 Civ. 420, 2004 WL 203010, at *3 (S.D.N.Y. Feb. 3, 2004)). Sky contends that "full title to the patents-in-suit passed to XACP when Ozro defaulted and XACP foreclosed." *Id.* at 5. Sky states that both Security Agreements provide that the lenders had all "rights and remedies of a secured creditor under the Massachusetts Uniform

Commercial Code." *Id.* at 6 (citing SVB Agreement at 6; XACP Agreement at 6-7). Sky avers that under Massachusetts UCC a default transfers all of the debtor's rights in the collateral, including the rights to sell, lease, license, or dispose of the property. *Id.* (citing MASS. GEN. LAWS ch. 106 at §§ 9-617 & 9-610). Sky emphasizes that under Massachusetts law, "a secured creditor is not required to bring an action to compel assignment to foreclose on intellectual property interests or execute any additional instrument upon foreclosure," citing that Massachusetts UCC does not contain a provision requiring additional action after foreclosure on intellectual property. *Id.* at 9 (citing MASS. GEN. LAWS ch. 106 at Art. 9). Sky argues that the Security Agreements were conditional assignments that were duly recorded with the PTO, thus fulfilling Section 261. *Id.* at 7.

Defendants respond that the security interests are not "conditional assignments." Dkt. No. 200 at 6. Defendants reiterate that an assignment must transfer all substantial rights while a security interest is an agreement for a future assignment and not a "present ownership right in the patent." *Id.* at 8-9 (citing *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1341 (Fed. Cir. 2006); *Trimarchi v. Together Dev. Corp.*, 255 B.R. 606, 611 (D. Mass. 2000); quoting *City Bank and Trust Co. v. Otto Fabric, Inc.*, 83 B.R. 780, 782 (D. Kan. 1988)). Defendants note that the language of the contract does not provide for an automatic assignment, but rather, the grant clause and other provisions repeatedly provides for a security interest. *Id.* at 10-

12 (citing SVB Agreement ¶¶ 1, 3(c), 3(I), 3(k), 6(a), 8; XACP Agreement ¶¶ 1, 3(c), 3(h), 3(I), 3(k), 6(a); *DDB Tech.*, 517 F.3d at 1290).

*8 Defendants state that a security interest does not convey title and is not an assignment. Dkt. No. 200 at 11-12 (citing *Holt v. United States*, 13 U.C.C. Rep. Servs. 336, 1973 WL 614, at *1 (D.D.C. 1973)). Defendants note that the article that Sky relies upon for its assignment theory recognizes a security interest to be a "lesser interest in the collateral." *Id.* (citing Thomas L. Bahrick, *Security Interests in Intellectual Property*, 15 A.I.P.L.A. Q.J. 30, 40 (1987)).

Defendants further provide that the default did not transfer substantial rights. Dkt. No. 200 at 14. Defendants argue that federal law should apply and that "[e]ven where the language in the underlying loan documents provides the creditor 'an entitlement to an immediate assignment of all right, title, and interests to the patents, with the right and power to execute and record an assignment of the patents as attorney-in-fact on behalf of the debtor after notice of default,' courts have held that 'no actual assignment of the patents occurred.'" *Id.* at 15 (quoting *In re Tower Tech, Inc.*, 67 Fed. Appx. 521, 524 (10th Cir. 2003)).

Defendants alternatively argue that even if Massachusetts law applied, the courts are "clear that 'an event of default does not automatically transfer possession to the creditor.'" Dkt. No. 200 at 15 (quoting *McDonald v. Rockland Trust Co.*, 59 Mass. App. Ct. 836, 798 N.E.2d 323, 327 (Mass. App.

2003)). Defendants cite that Massachusetts states that after foreclosure, if the debtor refuses to sign a written transfer of title, the creditor may file a "transfer statement." *Id.* at 15-16, 798 N.E.2d 323 (M.G.L.A. 106 § 9-619 Comment 2). Defendants assert that a creditor may alternatively seek a court order compelling a written assignment or appointing a receiver to issue a written assignment, which Ozro failed to do in its transfer to XACP. *Id.* at 16, 798 N.E.2d 323 (citing *Barton v. White*, 144 Mass. 281, 284, 10 N.E. 840 (Mass. 1887); *Wilson v. Martin-Wilson Automatic Fire-Alarm Co.*, 151 Mass. 515, 24 N.E. 784 (Mass. 1890); *McCann v. Randall*, 147 Mass. 81, 17 N.E. 75 (Mass. 1888)).

Sky responds that the *McDonald* case cited by Defendants is correct in stating that "an event of default does not automatically transfer possession to the creditor, [but] *McDonald* does not stand for the broader principle that title cannot pass by operation of law." Dkt. No. 204 at 5. Sky states that a creditor has several options, including forbearing the enforcement of its security agreement, and in this situation "XACP elected to foreclose and purchase the patents." *Id.* Sky contends that, contrary to Defendants' assertion, § 9-619 does not require that XACP execute a "transfer statement," which is a non-mandatory statement that is used "to address procedural problems that can arise when a secured party effects a non-volitional transfer, and the 'transfer statement' assists the secured party in recording its interest." *Id.* at 6 (citing MASS. GEN. LAWS ch. 106 § 9-619 Author's Note).

*9 Defendants counter that "unless state law specifically vests legal title to a patent, a written assignment is required to vest legal title." Dkt. No. 206 at 9 (citing *Ager v. Murray*, 105 U.S. 126, 131, 26 L.Ed. 942 (1881)). Defendants contend that Massachusetts law does not operate to vest legal title to patents following a default. *Id.* at 10. Defendants argue that in *In re Roman Cleanser Co.*, 43 B.R. 940, 948 n. 4 (Bank. Mich. 1984), aff'd 802 F.2d 207 (6th Cir. 1986), the court held that a security interest in a trademark was not an assignment upon default, and even after a creditor enforces the security interest, the creditor was still required to comply with the written assignment provision of the Lanham Act. *Id.* at 10 n. 17. Otherwise, Defendants assert a court of equity could appoint a trustee to make the assignment, and in this situation Defendants argue that XACP could have executed a written assignment to itself as it was Ozro's "attorney in fact." *Id.* at 10 (citing *Wilson v. Martin-Wilson Automatic Fire-Alarm Co.*, 151 Mass. 515, 516-17, 519-20, 24 N.E. 784 (Mass. 1890); XACP Agreement at 6).

Defendants distinguish the probate cases cited in *Akazawa* and argue that unlike those cases, Massachusetts UCC § 9-610 "does not provide that legal title to a patent 'shall vest immediately' or 'vests by operation of law' in a creditor upon default or foreclosure." Dkt. No. 206 at 11 (citing *H.M. Stickle*, 716 F.2d at 1558; *Winkler*, 105 F. at 190-91). Defendants reiterate that the Tenth Circuit in *In re Tower Tech* rejected an automatic transfer of title. *Id.* Regarding the "transfer statement," Defendants aver that it is not required but is one mechanism to

obtain title after default without a court order; however, Defendants note that this mechanism would not be needed if title to the patent vested automatically as Sky claims. *Id.* at 11-12 (citing Thomas M. Ward, *Intellectual Property in Commerce* § 3:70 (2007)). Defendants state that the cases cited by Sky support Defendants' position that an affirmative act had to be made after foreclosure. *Id.* at 12 (citing *Health Discovery*, 2007 WL 128283, at * 1; *digiGan*, 2005 WL 2254464, at *3).

2. Analysis

From the briefing, the Defendants and Sky appear to agree on two preliminary issues of law. Defendants have conceded that a patent may pass by operation of law and a written assignment is not the only method to transfer a patent. Defendants' Sur-Reply, Dkt. No. 206 at 8. Likewise, Sky has conceded that a default of a security interest does not automatically transfer possession to the creditor. Sky's Reply, Dkt. No. 204 at 5 (citing *McDonald*, 798 N.E.2d at 327 (stating "an event of default does not automatically transfer possession to the creditor")). Defendants assert that there is no state law that automatically vests legal title upon foreclosure, whereas Sky argues that it is the foreclosure and purchase of the patents that effected the transfer. *See* Dkt. No. 206 at 9; Dkt. No. 204 at 5. Therefore, the point of contention between the parties, and the issue that the Court must resolve, is whether there was a transfer of the patents from Ozro to XACP through an operation of law, specifically whether a foreclosure sale and purchase, under Massachusetts

UCC, is sufficient to transfer title by operation of law.

*10 The Security Agreements provide the following remedies upon a default:

> 8. *Remedies.* Upon the occurrence and continuance of an Event of Default, Lender shall have the right to exercise all the remedies of a secured party under the Massachusetts Uniform Commercial Code, including without limitation the right to require Grantor to assemble the Intellectual Property Collateral and any tangible property in which Lender has a security interest and to make it available to Lender at a place reasonably designated by Lender . . . .

SVB Agreement at 6.

> 8. Remedies. (a) Upon the occurrence and continuance of an Event of Default, Agent shall have the right to exercise all the remedies of a secured party upon such default under the Massachusetts Uniform Commercial Code (the "UCC") (or other applicable Federal or other law), in addition to which, Agent shall have the following rights and remedies: (I) to take possession of all or any portion of the Intellectual Property Collateral, (ii) to sell, lease, or otherwise dispose of any or all of the Intellectual

> Property Collateral, in its then condition or following such preparation or processing as the Agent deems advisable and with or without the taking of possession of any of the Intellectual Property Collateral, and (iii) to exercise all or any of the rights, remedies, powers, privileges, and discretions under all or any of the documents relating to the Secured Obligations.

XACP Agreement at 6-7.

Sky argues that the mere foreclosure results in the transfer of title. Defendants rely significantly on *In re Tower Tech*, an unpublished Tenth Circuit opinion that found that a notice of default did not provide for an actual assignment of secured patents, even though the promissory note contained the provision that, in the event of default, the lender "shall receive an immediate assignment of all right, title and interest to the patents specified as collateral."[3] *In re Tower Tech.*, 67 Fed. Appx. at 523-24. The Court notes that unlike the foreclosure sale that occurred here, in *Tower Tech*, the debtor only gave a notice of default and acted no further. *In re Tower Tech.*, 67 Fed. Appx. at 524. Defendants cite to

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[3] This is consistent with the Federal Circuit case cited by Defendants, *IpVenture, Inc. v. Prostar Computer, Inc.*, 503 F.3d 1324, 1327 (Fed. Cir. 2007), holding that an agreement stating "agree to assign" was a future assignment, not a present assignment.

the treatise Intellectual Property in Commerce for the proposition that there is a need for a "post-default document that reflects transfer of ownership out of the debtor." Dkt. No. 206 at 11 (citing Thomas J. Ward, *Intellectual Property in Commerce* § 3:70). Specifically the treatise stated:

> Because the federal forms of intellectual property are subject to a system of "title" registration or recording, it is important for the secure party to be able to have a recordable post-default document that reflects transfer of ownership out of the debtor. The record transferee might be the foreclosure sale buyer, assignee or exclusive licensee. The record transferee might also be the secured party, either permanently, in the case of a strict foreclosure, or temporarily, in anticipation of disposition to a subsequent party. The security agreement can be supplemented by the attachment of such a recordable ownership document along with the debtor's power of attorney authorizing the secured party's nominee to complete and execute the form on default. If such a document is not provided for in advance, and the debtor is not willing to cooperate after default, the secure party can go to court to either force the debtor to execute the necessary papers or to obtain a recordable document prepared by the court itself.
>
> *11 Thomas J. Ward, Intellectual Property in Commerce § 3:70

In support of this proposition, the treatise cites to *Tower Tech*, stating:

Although the court in *Tower Tech* does not expressly say that the lender could have taken good title to the patent collateral on default without following the provisions for either "acceptance of collateral" or "disposition" in Article Nine, it seems to suggest as much. While a secure party should be entitled to execute the necessary post-default transfer documents under a proper power-of-attorney, these documents must be executed in furtherance of an otherwise reasonable disposition of the collateral (*U.C.C. [Revised] §§ 9-610* to *9-617*) or a properly proposed "acceptance in satisfaction" (*U.C.C. [Revised] §§ 9-620* to *9-621*).

Thomas J. Ward, Intellectual Property in Commerce § 3:70 n. 1.

Taking these two sections together, the Court first notes that the treatise presumes a need for a "post-default document that reflects transfer of ownership," presumably out of the writing assignment requirements of the various intellectual property acts. See 35 U.S.C. § 261 (patent); 15 U.S.C. § 1060 (trademark); 17 U.S.C. § 204 (copyright). However, as already explained above, the Federal Circuit held in Akazawa that a writing is not required to transfer title, rather, title may pass by operation of law. Akazawa, 520 F.3d at 1356. This finding is also consistent with Tower Tech and other Michigan cases finding that a mere default or notice of default was insufficient to transfer title. The treatise suggests that a subsequent action was required, either through a disposition under UCC § 9-610 or an acceptance in satisfaction under UCC § 9-620, dealing with a strict foreclosure.

Alternatively, a court order or a transfer statement pursuant to UCC § 9-619 would be acceptable.

Massachusetts Annotated Laws ch. 106 § 9-610(a) provides: "After default, a secured party may sell, lease, license, or otherwise dispose of any or all of the collateral in its present condition or following any commercially reasonable preparation or processing." Massachusetts Annotated Laws ch. 106 § 9-610(c) provides: "A secured party may purchase collateral: (1) at a public disposition; or (2) at a private disposition only if the collateral is of a kind that is customarily sold on a recognized market or the subject of widely distributed standard price quotations." Further, as explained in Massachusetts Annotated Laws ch. 106 § 9-617(a) a "secured party's disposition of collateral after default: (1) transfers to a transferee for value all of the debtor's rights in the collateral," and comment 2 states "Title Taken by Good-Faith Transferee. Subsection(a) sets forth the rights acquired by persons who qualify under subsection (b)-transferees who act in good faith. Such a person is a 'transferee,' inasmuch as a buyer at a foreclosure sale does not meet the definition of 'purchaser' in Section 1-201 . . . ."

*12 Here, the patents were placed at a "public" auction. XACP foreclosed on both of the security interests and Ozro was later notified of the sale. See Dkt. No. 132, Exh. N. Thus, unlike the debtor in *Tower Tech*, XACP acted beyond merely noticing the default and actively foreclosed on the property, pursuant to §§ 9-610 and 9-617. Therefore, the point at which title transferred was on the date of the foreclosure, July 14, 2003. The transfer to

Whitelight Technologies, predecessor to Sky, occurred on July 22, 2003. Dkt. No. 132, Exh. O. Thus, the chain-of-title was not broken and Sky has proper title to the patents-in-suit. Moreover, Defendants had previously stated that Ozro had executed Terminal Disclaimers on June 4 and 5, 2001 and June 3, 2003 as well as a license on November 19, 2001. *See* Dkt. No. 198 at 8. However, the transfer of title on July 22, 2003 is consistent with Ozro's actions prior to this time, as it held title while the other entities merely held a security interest.

III. CONCLUSION

For the foregoing reasons, the Court **DENIES** Defendants' Rule 12(b)(1) Motion to Dismiss for Lack of Standing (Dkt. No. 132).

Accordingly, the Court **DISMISSES** Ozro's Motion to Intervene (Dkt. No. 146) as **MOOT.**

It is so **ORDERED.**

Appendix E

Sky Technologies LLC v. SAP AG,
Order (E.D. Tex. March 20, 2008)

United States District Court,
Eastern District of Texas,
Marshall Division

SKY TECHNOLOGIES LLC, Plaintiff,
v.
SAP AG, SAP America, Inc. and Oracle Corporation,
Defendants.

Civil Action No. 2:06-CV-440 (DF)
Docket No. 193 (March 20, 2008)

ORDER

Currently before the Court is Defendants' Rule 12(b)(l) Motion to Dismiss for Lack of Standing (Dkt. No. 132) and related briefing (Dkt. Nos. 147, 155, 171, 186, 189). The Court held a hearing regarding this matter on February 28, 2008. Dkt. No. 187. The Court is of the opinion that additional briefing is required.

I. BACKGROUND

On October 17, 2006, Plaintiff Sky filed a claim for infringement of U.S. Patent Nos. 6,141,653 (the "'653 Patent"), 6,336,105 (the "'105 Patent"), and 6,338,050 (the "'050 Patent"). Complaint, Dkt. No. 1. Jeffrey Conklin ("Conklin"), David Foucher, and Daniel Foucher are the named inventors of these

patents. United States Patent Nos. 7,162,458 (the "'458 Patent") and 7,149,724 (the "'724 Patent") were later added. Second Amended Complaint, Dkt. No. 44. Conklin, David Foucher, Daniel Foucher, and William J. Flanagan are listed as the inventors of these two patents.

The inventors of all the above five patents-in-suit assigned their rights to TradeAccess, Inc. ("TradeAccess"). Dkt. No. 132 at 7 (citing Dkt. No. 132, Exhibits B-F); Dkt. No. 147 (citing Dkt. No. 132, Exhibits B-F). Each of these assignments was filed in the United States Patent & Trademark Office ("USPTO"). Dkt. No. 132 at 8. TradeAccess was formed by Conklin. Dkt. No. 132 at 8; Dkt. No. 147 at 2. On April 2, 2001, an Intellectual Property Security Agreement was made between TradeAccess and Silicon Valley Bank where a loan was secured by interests in TradeAccess's intellectual property. Dkt. No. 132 at 8 (citing Dkt. No. 132, Exhibits G); Dkt. No. 147 (citing Dkt. No. 132, Exh. G). The agreement contained a clause stating that the IP Agreement would be "governed by and construed in accordance with the laws of the Commonwealth of Massachusetts." Dkt. No. 132, Exh. G at 7. On April 3, 2001, an Intellectual Property Security Agreement was made between TradeAccess and Cross Atlantic Capital Partners, Inc. ("CACP"), as agent for Cross Atlantic Technology Fund, L.P. ("XATF"), The Co-Investment 2000 Fund, L.P. ("CI 2000"), and 3i Technology Partners L.P. ("3i") (collectively "XACP"). Dkt No. 132 at 8; Dkt. No. 147 at 3; Dkt. No. 132, Exh. H. This second agreement also had a Massachusetts choice of law clause. Dkt. No. 132,

Exh. H at 8. These documents were filed with the USPTO. Dkt. No. 132 at 8.

TradeAccess changed its name to Ozro on May 3, 2001 by filing papers with the State of Delaware Office of the Secretary of State. Dkt. No. 132 at 8 (citing Dkt. No. 132, Exh. L). On December 5, 2002, XATF and CI 2000 (collectively, the "XACP Entities") "entered into a Purchase Agreement with 3i, wherein 3i assigned all rights in its agreements with Ozro, including the Intellectual Property Security Agreement. Dkt. No. 147 at 3. On December 18, 2002, Silicon Valley Bank entered into a Non-Recourse Assignment with the XACP Entities, wherein Silicon Valley Bank transferred its rights to the secured loan agreement with Ozro. Dkt. No. 147 (citing Dkt. No. 132, Exh. I at 1).

Under a Settlement Agreement, effective as of June 4, 2003, the XACP Entities sought to sell to Conklin "certain intellectual property and assets of Ozro, Inc. (f/k/a Trade Access, Inc.)." Dkt. No. 132 at 8; Dkt. No. 147 at 4; Dkt. No. 132, Exh. M. The Agreement specified that the Intellectual Property would be purchased by the new entity "Newco" created by Conklin. Dkt. No. 132, Exh. M at 7. The Agreement stated:

> Public Auction. The XACP Entities shall use their best efforts to obtain title to the Intellectual Property for purposes of a transfer from the XACP Entities to Newco, by selling all of the XACP Entities' rights in and to the Secured Intellectual Property by Public Auction

> within sixty (60) days after the Effective Date. The XACP Entities shall provide Conklin with the opportunity to review and approve the terms and notices relating to the Public Auction prior to their release. At the Public Auction, the XACP entities, or their designee, will credit bid up to $4,031,844, as may be required to purchase the Intellectual Property, including but not limited to the right to sue for past infringement or misappropriation of the Patents, covered by security interests held by the XACP Entities. . . .

Dkt. No. 132, Exh. M at 7-8. The $4,031,844 was the "amount owed by Ozro to XACP." Dkt. No. 132 at 8.

On July 14, 2003, a public auction was held regarding the Ozro Intellectual Property. According to the auctioneer:

> The intellectual property assets were offered for sale in two offerings. The first sale was to foreclose on the security interest originally held by Silicon Valley Bank that was subsequently assigned to Cross Atlantic. Cross Atlantic foreclosed on this first priority security interest as assignee of this interest. The second sale was to foreclose on the security interest originally held by Cross Atlantic. Cross Atlantic was the only

> bidder and it, through its representative Craig Vaughn, purchased the assets for $100,000.

Dkt. No. 132, Exh. N (letter from Atlantic Auctions to counsel for Ozro).

Defendants state that despite this sale, there was no written instrument assigning the Ozro patents to XACP. Dkt. No. 132 at 9. On July 23, 2003 a written assignment was made by XACP to Whitelight Technology, LLC, a predecessor to Sky, for the rights to multiple patents, including the '653 Patent, the '050 Patent, the '105 Patent, as well as, U.S. Application No. 09/702,128, which would later become the '458 Patent, and U.S. Application No. 09/702,062, which would later become the '724 Patent. Dkt. No. 132, Exh. O at 1. This assignment had a choice of law clause for the assignment to be construed pursuant to the laws of the Commonwealth of Pennsylvania. *Id.* at 3. On November 1, 2007, Ozro, Inc. submitted a Certificate of Dissolution to the State of Delaware, which was authorized on April 24, 2007 by Conklin. Dkt. No. 132, Ex. P.

Now before the Court, Defendants contest the assignment made on July 22, 2003 from XACP to Whitelight Technology, LLP as improper because Defendants aver that Ozro never assigned the patents-in-suit to XACP in any instrument in writing after the July 14, 2003 foreclosure. Sky argues that the security agreements and their subsequent recording in the USPTO served as assignments.

Ozro seeks to intervene in order to resolve the standing issue.

II. MOTION TO DISMISS

A. PARTIES' POSITIONS

Defendants argue that Sky cannot demonstrate that it held legal title or was an exclusive licensee at the inception of the lawsuit. Dkt. No. 132 at 9-10 (citing *Enzo APA & Son, Inc.* v. *Geapag A.G.*, 134 F.3d 1090, 1093 (Fed. Cir. 1998); *Reid v. Gen. Motors Corp.*, 489 F. Supp. 2d 614, 616 (E.D. Tex. 2007)). Defendants state that Sky acknowledges that the chain-of-title ending with its July 22, 2003 acquisition from XACP depends from XACP's auction acquisition. Dkt. No. 132 at 10 (citing *In re Novon Int'l, Inc.*, 2000 WL 432848, at *5 (W.D.N.Y. Mar. 31, 2000); *Sanofi S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939 (D.N.J. 1983)). Defendants state that 35 U.S.C. § 261 ("Section 261") requires that an assignment be in writing and there are no exceptions. *Id.* at 10-11 (citing *United States v. Solomon*, 825 F.2d 1292, 1296 (9th Cir. 1987); *Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 777 (Fed. Cir. 1996), *reh'g granted in part & opinion amended*, 104 F.3d 1296 (Fed. Cir. 1996); *Waymark Corp. v. Porta Sys. Corp.*, 334 F.3d 1358, 1364 (Fed. Cir. 2003); *Univ. Patents, Inc. v. Kligman*, 762 F. Supp. 1212, 1219 (E.D. Pa. 1991)).

Defendants aver that the act of foreclosure itself does not satisfy the requirement of a writing conveying title. *Id.* at 11 (citing *Ager v. Murray*, 105

U.S. 126, 131 (1881)). Defendants reject Sky's assertion that the documents surrounding the foreclosure constitute the assignment. *Id.* at 11 n.26. Defendants state that an entitlement to the rights to a patent, such as after a notice of default, does not constitute an actual assignment. *Id.* at 12 (citing *In re Tower Tech., Inc.*, 67 Fed. Appx. 521, 524 (10th Cir. 2003)). Defendants add that security interests are also not adequate written assignments. *Id.* (citing *Moldo v. Matsco, Inc. (In re Cybernetic Servs.)*, 252 F.3d 1039, 1052 (9th Cir. 2001), *cert. denied*, 534 U.S. 1130, 122 S.Ct. 1069, 151 L. Ed. 2d 972 (2002)). Defendants note that the "June 4, 2003 agreement between XACP and Mr. Conklin sets forth only a pledge by XACP to use its best efforts to secure Ozro's intellectual property by foreclosure. . . . [but] did not set forth any assignment from Ozro to XACP." *Id.*

Defendants argue that under the governing law of Massachusetts, XACP had two options to acquire title if Ozro was unable or unwilling to assign the patents. *Id.* at 13. Defendants state that XACP could have sought a court order compelling assignment or sought the appointment of a receiver to issue the written assignment. *Id.* (citing *Barton v. White*, 144 Mass. (1 Allen) 281, 284 (Mass. 1887); *McCann v. Randall*, 147 Mass. 81, 17 NE 75, 88 (Mass. 1888)). Defendants conclude that since XACP failed to do either, it and its successor, Sky, did not take title to any of the patents-in-suit. *Id.*

Defendants state that Sky cannot "disregard corporate structures and formalities." Dkt. No. 132 at 13. Defendants argue that although Conklin

founded TradeAccess, Ozro, and Sky, by electing to have the "benefit of an independent corporate structure for Sky, without any of the obligations owed by TradeAccess and Ozro to their shareholders and creditors, Sky cannot now ignore that independence." *Id.* at 14 (citing *Boise Cascade Corp. v. Wheeler*, 419 F. Supp. 98, 102 (S.D.N.Y. 1976)). Defendants emphasize that corporations are "separate and distinct from that of its owners" and a similar argument of "reverse piercing" the corporate veil was rejected by the court in *Lans v. Gateway 2000.* Dkt. No. 132 at 14 (citing *Wheeler*, 419 F. Supp. at 102; *Lans v. Gateway 2000, Inc.*, 84 F. Supp. 2d 112, 123 n.10, *aff'd Lans v. Digital Equip. Corp.*, 252 F.3d 1320 (Fed. Cir. 2001)).

Defendants argue that Sky cannot cure its lack of standing by joining Ozro because legal title must exist at the inception of the lawsuit. Dkt. No. 132 at 14 (citing *MyMail, Ltd. v. America Online, Inc.*, 476 F.3d 1372, 1375 (Fed. Cir. 2007)). Defendants add that Ozro was previously dissolved and has not paid franchise taxes that would be necessary for Ozro to maintain a corporate charter. *Id.* at 15 (citing Dkt. No. 132, Exh. T & P; 8 Del. Code. Ann. tit. 8 §§ 510, 122 (2005)). Defendants state that Sky may not cure by securing a retroactive assignment in writing. *Id.* at 14-15 (citing *Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1309-10 (Fed. Cir. 2003)).

Sky responds that "[a]ccording to clear Supreme Court authority, 'a federally recorded security agreement grants title to the secured lender' under § 261." Dkt. No. 147 at 5 (citing *City Bank*

and Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 783 (D. Kan. 1988)). Sky cites to *Waterman v. Mackenzie* for the proposition that the recording of a security interest of a patent with the PTO "operates as delivery of title to satisfy § 261." *Id.* (citing *Waterman v. Mackenzie*, 138 U.S. 252, 257 (1891)). Sky concludes that title was transferred when Silicon Valley Bank and XACP recorded their security interests with the USPTO and when Silicon Valley Bank assigned its interests to XACP by written assignment. *Id.* at 5-6.

Sky asserts that the facts in this case go beyond *Waterman* because a "security interest and concomitant foreclosure is sufficient to transfer title." Dkt. No. 147 at 6 (citing *Digigan, Inc. v. iValidate, Inc.*, 2004 WL 203010, at *3 (S.D.N.Y. Feb. 3, 2004); *cf. Bordener v. Herrinton*, 2005 WL 3506594, at *4 (Mich. App. Dec. 22, 2005)). Sky also states that the authority cited by Defendants, *Ager v. Murray*, is inapposite because "*Ager* does not apply to loans secured by patent rights. Instead, *Ager* addresses the proper procedure to pass title when a loan is *not* secured by patent rights." *Id.* at 7. Sky distinguishes *Ager* by arguing that Ozro secured its loan with patent rights and that Ozro's situation is controlled by *Waterman*. *Id.* at 7-8.

Sky also urges the Court to grant Ozro's Motion to Intervene and avoid this issue altogether by rendering the standing argument moot. Dkt. No. 147 at 8. Sky responds that Ozro does not owe Delaware franchise taxes as asserted by Defendants because Ozro was dissolved on November 1, 2007 and Ozro paid its outstanding taxes on or about that

date. *Id.* at 9 (citing Conklin Affidavit, Dkt. No. 147, Exh. C; Delaware Status Report dated January 10, 2008, Dkt. No. 147, Exh. D).

Defendants reply that the Intellectual Property Security Agreements entered in April 2001 did not transfer title of the patents to XACP. Dkt. No. 155 at 8. Defendants state that the Ninth Circuit's decision in *In re Cybernetic* is the only federal appellate court to consider whether security interests qualify as written assignment under Section 261, and it held that security interests were outside the scope of Section 261. Dkt. No. 155 at 9 (quoting *In re Cybernetic*, 252 F.3d at 1056). Defendants note a creditor holding a UCC Article 9 security interest, unlike a creditor holding a mortgage, does not hold title to the patents but is rather a "hypothetical lien creditor." *Id.* (citing *In re Cybernetic*, 252 F.3d at 1053-55). Defendants conclude that under the Uniform Commercial Code, "the security interests kept title to the patents in the debtor, while giving the creditors only the right to foreclose upon the failure to pay the debt." *Id.* at 10. Defendants argue that Ozro could have secured its debts with a *Waterman-type* mortgage but chose to secure them with a security interest. *Id.* at 11.

Defendants cite to other evidence that title had not passed. Defendants state that after the April 2001 date that the security interests were granted, Ozro's counsel filed terminal disclaimers declaring TradeAccess was the owner of the patents-in-suit. *Id.* Defendants state that only the owner may file a terminal disclaimer, and the terminal disclaimers that were filed would otherwise be

invalid. *Id.* (citing *Sygenta Seeds, Inc. v. Monsanto Company*, 2004 WL 2790499, at *3 (D. Del. Nov. 19, 2004), *aff'd* 231 Fed. Appx. 954 (Fed. Cir. 2007); *Group One Ltd. v. Hallmark Cards, Inc.*, 407 F.3d 1297, 1306 (Fed. Cir. 2005)). Defendants also note that "Ozro granted a non-exclusive license to the patents-in-suit to I-many, Inc. on November 19, 2001, something Ozro would not have standing to do if, by April 3, 2001, the security agreements had in fact transferred 'all right, title and interest to the patented technology' from Ozro to its creditors." *Id.* at 11-12 (citing *Sicom Sys. v. Agilent Techs. Inc.*, 427 F.3d 971, 974 (Fed. Cir. 2005)).

Defendants respond to Sky's request to intervene under Federal Rule of Civil Procedure ("Rule") 24 by arguing that standing must be present at the inception of the lawsuit and may not be cured by the addition of a party with standing. Dkt. No. 155 at 12. Defendants note that both the Federal Circuit and Fifth Circuit have held that a jurisdictional defect cannot be later remedied. *Id.* at 12-13 (citing *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 402 F.3d 1198, 1203 (Fed. Cir. 2005); *Interstate Commerce Commission v. Souther R. Co.*, 380 F. Supp. 386, 394-95 (M.D. Ga. 1974), *aff'd in relevant part*, 543 F.2d 534 (5th Cir. 1976); *Bhandari v. Cadence Design Sys.*, 485 F. Supp. 2d 747, 750 (E.D. Tex. 2007)).

Sky replies that the Security Agreements indicate that the patents were granted as "collateral security." Dkt. No. 171 at 1 (citing Dkt. No. 132, Exh. G at 2; Dkt. No. 132, Exh. H at 2). Specifically, Sky argues that the Security Agreements provide for

the reassignment to Ozro upon repayment of the debt. *Id.* at 1-2. Sky implies that this provision would not have been necessary if there had been no assignment. Dkt. No. 171 at 2. Sky also notes that the Agreement provided for its recording at the USPTO. *Id.* at 171. Regarding *In re Cybernetic*, Sky notes that the Ninth Circuit held that "a security interest in a patent that does not involve a transfer of ownership is a 'mere license' and is not an 'assignment, grant or conveyance'," and Sky reasons that, by inference, a security interest that "*does* involve a transfer of ownership *is* an assignment under § 261." Dkt. No. 171 at 3 (quoting *In re Cybernetic*, 252 F.3d at 1052).

Sky urges the Court to allow Ozro to intervene in the interest of judicial economy because if this case were dismissed Ozro would immediately file the "same lawsuit, against the same parties, before the same Court." Dkt. No. 171 at 3. Sky acknowledges that a prerequisite of an intervention is that an existing suit is within the Court's jurisdiction. *Id.* (citing *In re Greyhound Securities Litigation*, 1997 WL 531317, at *3 (N.D. Tex. Aug. 15, 1997)). However, Sky argues that it falls within a recognized exception that "intervenors with an independent basis for jurisdiction may be treated as stating a wholly separate claim." *Id.* at 4 (citing *In re Greyhound*, 1997 WL 531317, at *3). Sky avers that the exception allows the court to avoid senseless delay, and the Court may consider an intervenor's claim even if the court lacks jurisdiction over the original action. *Id.* (citing *Fuller v. Volk*, 351 F.2d 323, 329 (3d Cir. 1965); *Arkoma Assocs. v. Carden*,

904 F.2d 5, 7 (5th Cir. 1990); Charles Alan Wright et al., 7C Federal Practice and Procedure § 1917 (3d ed. 2007); *Miller & Miller Auctioneers, Inc. v. G. W. Murphy Indus., Inc.*, 472 F.2d 893, 895-96 (10th Cir. 1973)). Sky notes that Defendants' citation to *Bhandari* is inapposite because that case related to a denial under a Rule 15 motion to amend complaint, not a motion to intervene under Rule 24, as in this case. *Id.*

B. LEGAL PRINCIPLES

"The burden of demonstrating standing falls to [Plaintiff], as '[i]t is well established . . . that before a federal court can consider the merits of a legal claim, the person seeking to invoke the jurisdiction of the court must establish the requisite standing to sue.'" *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026 (Fed. Cir. 1995) (quoting *Whitmore v. Arkansas*, 495 U.S. 149, 154 (1990); citing *Sicom Sys., Ltd v. Agilent Tech., Inc.*, 427 F.3d 971, 975-76 (Fed. Cir. 2005)).

One seeking damages for infringement of a patent must hold legal title to that patent. *See, e.g.*, *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538 (Fed. Cir. 1995); *Speedplay, Inc. v. Bebop*, 211 F.3d 1245, 1249-50 (Fed. Cir. 2000) (citing 35 U.S.C. §§ 100(d), 261, 281). Under Section 261:

> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like

> manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States. . . .
>
> An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

A party without title has no standing to bring suit. *Filmtec Corp. v. Allied-Signal Inc.*, 939 F.2d 1568 (Fed. Cir. 1991); *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995) ("The right to sue for infringement is ordinarily an incident of legal title to the patent."). "Further, all co-owners must, ordinarily, consent to join as plaintiffs in an infringement suit." *DDB Techs., LLC v. MLB Advanced Media, LP*, 465 F. Supp. 2d 657, 661 (W.D. Tex. 2006). Legal title, which confers standing, must be held at the inception of the lawsuit. *Paradise Creations*, 315 F.3d at 1308 (citing *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 570 n.5, 119 L. Ed. 2d 351, 112 S. Ct. 2130 (1992) (plurality opinion)); *Gaia Technologies*, 93 F.3d at 777. "The party asserting that it has all substantial rights in the patent 'must produce . . . written instruments documenting the transfer of proprietary rights.'" *Mentor H/S, Inc.*, 240 F.3d at 1017 (quoting *Speedplay*, 211 F.3d at 1250). Section 100(d) provides that a "'patentee' includes not only the

patentee to whom the patent was issued but also the successor in title to the patentee." Therefore, the chain of title must be followed in order to determine the party holding legal title to the patent. *See Enzo*, 134 F.3d at 1093; *Gaia Technologies*, 93 F.3d at 777.

"In examining a Rule 12(b)(1) motion, the Court is empowered to consider matters of fact which may be in dispute." *Id.* A court may not grant dismissal "unless it appears certain that the plaintiffs cannot prove any set of facts in support of their claim which would entitle them to relief," and a court "must take as true all of the allegations of the complaint and the facts as set out by the [plaintiffs]." *Saraw Partnership v. U.S.*, 67 F.3d 567, 569 (5th Cir. 1995).

C. DISCUSSION

Sky and the Defendants propose a conflicting chain-of-title regarding the patents. The alleged point of transfer breaking the chain occurs between Ozro and XACP. According to Sky, the April 2001 Security Agreements transferred title to the patents from Ozro and these agreements were recorded in the USPTO in May 2001. Dkt. No. 147 at 3. Sky argues that these rights to the title were consolidated into the XACP entities, which later foreclosed on the security interests on July 14, 2003. *Id.* at 4. However, Sky argues that the recording of the security interest was sufficient to satisfy Section 261. Dkt. No. 147 at 5. Thus, Sky places the moment of transfer to XACP in April, with the recording in May 2001 satisfying Section 261, asserting that "when Silicon Valley Bank and XACP

recorded their security interests in the patents-in-suit with the PTO, they obtained title to the patents by written assignment, consistent with § 261." *Id.* at 5. On the other hand, Defendants assert that the security agreement, the recording of the security agreement, and the foreclosure did not transfer title. Specifically, Defendants note that at the point where Ozro was obligated to transfer title, after the July 14, 2003 foreclosure, there is no evidence as to any written assignment to satisfy Section 261. *See* Dkt. No. 132 at 9. Therefore, the first question the Court must answer is whether the recording of a security interest is sufficient to serve as an assignment of the patent rights.

The Court notes that the recording of the security interest, in and of itself, does not indicate an assignment. As the Federal Circuit explained in *Gaia Technologies*, "the mere fact that an assignment was recorded in the PTO does not, without more, prove that a valid assignment actually took place." 93 F.3d at 778 n.3 (citing 37 C.F.R. § 3.54 (1995) ("The recording of a document . . . is not a determination by the [USPTO] of the validity of the document or the effect the document has on the title to an application, a patent, or a registration."). The Federal Circuit clarified that Section 261 "provides that (1) a patent . . . assignment must be in writing; and (2) the recording of an assignment is necessary only to protect the assignee from subsequent bona fide purchasers without notice." *Id.* at 777.

Sky relies on the Supreme Court decision in *Waterman v. Mackenzie* for the proposition that the recording of a security interest "operates as delivery

of title to satisfy § 261." Dkt. No. 147 at 5. In *Waterman*, the Supreme Court had to determine the effect of a deed by which Waterman assigned to Asa L. Shipman's Sons her rights to a patent. *Waterman*, 138 U.S. at 257. A provision stated that "the assignment should be null and void if [Mrs. Waterman] and her husband, or either of them, should pay at maturity a certain promissory note of the same date made by them and payable to the grantees." *Id.* at 257-58. The Watermans assigned their "title under the mortgage, and the promissory note thereby secured," which was recorded in the USPTO. *Id.* at 258. The Supreme Court explained:

> A patent right is incorporeal property, not susceptible of actual delivery or possession; and the recording of a mortgage thereof in the Patent Office, in accordance with the act of Congress, is equivalent to a delivery of possession, and makes the title of the mortgagee complete towards all other persons, as well as against the mortgagor.

Id. at 260. The Supreme Court concluded that "Shipman, being the present owner of the whole title in the patent under a mortgage duly executed and recorded, was the person, and the only person, entitled to maintain such a bill as this." *Id.* at 261.

Defendants, on the other hand, rely on *In re Cybernetic* for the proposition that security interests do not qualify as assignments under Section 261." Dkt. No. 132 at 12. In *In re Cybernetic*, the Ninth Circuit addressed whether Section 261 or Article 9 of

the Uniform Commercial Code (UCC) "requires the holder of a security interest in a patent to record that interest with the federal Patent and Trademark Office (PTO) in order to perfect the interest as against a subsequent lien creditor." *In re Cybernetic*, 252 F.3d at 1044. The Court recognizes that the Ninth Circuit's holding should be read in light of the arguments of the Trustee that were addressed in the opinion:

> First, the Trustee contends that the Patent Act preempts Article 9's filing requirements. Second, the Trustee argues that Article 9 itself provides that a security interest in a patent can be perfected only by filing it with the PTO.

In re Cybernetic, 252 F.3d at 1045. The Trustee argued that Section 261 requires the holder of a security interest to record to perfect as to a subsequent lien creditor. *Id.* at 1046. The Ninth Circuit determined that the Patent Act would preempt state law only if Section 261 "*required* Petitioners to record their interest with the PTO." *Id.* at 1048. The Ninth Circuit then addressed whether Section 261 required parties to record the security interest at issue. *Id.* The Ninth Circuit first held that the phrase "assignment,[1] grant or

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[1] The Ninth Circuit found that an "assignment" concerned the transfer of specific rights in the patent, particularly a transfer of title. *In re Cybernetic*, 252 F.3d at 1049 (citing *Oliver v. Rumford Chem. Works*, 109 U.S. 75, 82-83, 3 S. Ct. 61, 27 L.Ed. 862 (1883); *Waterman*, 138 U.S. at 255; 2 William C. Robinson, The Law of Patents § 762, at 517 (1890)).

conveyance" in Section 261 concerns transfers of ownership interests only. *Id.* at 1051. The Ninth Circuit reviewed *Waterman* and held "the statute's text, context, and structure, when read in the light of Supreme Court precedent, compel the conclusion that a security interest in a patent that does not involve a transfer of the rights of ownership is a 'mere license' and is not an 'assignment, grant or conveyance' within the meaning of 35 U.S.C. § 261." *In re Cybernetic*, 252 F.3d at 1052. The Ninth Circuit noted that "the parties do not dispute that the transaction that gave Petitioners their interest in the patent did not involve a transfer of an ownership interest in the patent. Petitioners held a 'mere license,' which did not have to be recorded with the PTO." *Id.* at 1052.

The Ninth Circuit also found that PTO regulations supported the reasoning that Section 261 only required the recording of ownership interests in a patent. *In re Cybernetic*, 252 F.3d at 1056-57. The Ninth Circuit interpreted 37 C.F.R. § 3.11 as showing "that the PTO does not consider security interests to be 'assignments, grants or conveyances.'" *Id.* at 1057. Under Section 261, documents that transfer an ownership interest "*must* be recorded to be effective as against a subsequent purchase or mortgagee." *Id.* (emphasis in original). The Ninth Circuit reasoned that "[i]f security interests *were* 'assignments, grants or conveyance,' then they would *have* to be filed to provide constructive notice to a subsequent purchaser or mortgagee, consistent with the Patent Act." *Id.* Citing to 37 C.F.R. § 3.11 and Section 313 of the Manual of Patent Examining

Procedure (7th ed. 1998), the Ninth Circuit noted that the Commissioner of the USPTO had discretion to record other documents affecting title, wherein "other documents" included "agreements which convey a security interest." *In re Cybernetic*, 252 F.3d at 1056. The Ninth Circuit's analysis culminated in the conclusion that "Because the Patent Act does not cover security interests or lien creditors at all, there is no conflict between 35 U.S.C. § 261 and Article 9. Petitioners did not have to file with the PTO to perfect their security interest as to a subsequent lien creditor." *Id.* at 1057-58.

The Ninth Circuit stated that "a transaction that grants a party a security interest in a patent but does *not* effect a transfer of title is *not* the type of 'assignment, grant or conveyance' that is referred to in 35 U.S.C. § 261." *In re Cybernetic*, 252 F.3d at 1058. The Ninth Circuit then reiterated that the "transaction in this case did not transfer an ownership interest," thus § 9302(3)(a) of the California Commercial Code did not require "that Petitioners record their security interest with the PTO." *Id.* Sky would reason that the Ninth Circuit's holding that "a security interest in a patent that does not involve a transfer of the rights of ownership is a 'mere license," implies that a security interest in a patent that *does* involve a transfer would constitute an assignment.

The Court finds that, contrary to Defendants' assertions, *In re Cybernetic* does not broadly preclude a security interest from effecting a transfer in title. The Ninth Circuit merely held that Section 261 only requires the recording of ownership interests in a

patent. Whether a security interest may effect a transfer in title was not at issue in *In re Cybernetic*, rather the parties had agreed that the security interest in question did not effect a transfer in title. However, a security agreement that grants substantial rights to a patent may still effect a transfer of title to constitute a written assignment. Likewise, the Court finds that, contrary to Sky's assertion, *Waterman* does not broadly stand for the proposition that a security interest recorded with the USPTO effectively transfers title to the secured lender under Section 261. Rather, *Waterman* related to the assignment of a patent through a mortgage which was subsequently recorded with the USPTO. *Waterman*, 138 U.S. at 257-58. The Court agrees with the Ninth Circuit's analysis of *Waterman* which explained that a "security interest that does not transfer ownership is not an 'assignment, grant or conveyance,' but also because he is not a subsequent 'purchase or mortgagee.'" *In re Cybernetic*, 252 F.3d at 1053. The Ninth Circuit distinguished between a mortgage and a security interest, i.e. a "pledge," explaining:

> Historically, a "mortgagee" was someone who obtained title to property used to secure a debt. *See* James Schouler, Personal property § 416, at 622 (5th ed. 1918) (noting that "[m]ortgages of chattels, then, are to be distinguished at common law from liens and pledges in this sort of out-and-out transfer of the title conditionally which is carried by the original transaction").

> A "mortgage" must be differentiated from a "pledge" . . . . Professor Gilmore, in his treatise, Security Interests in Personal Property § 1.1, at 8, notes that the historical distinction between a pledge and a mortgage was that "the mortgagee got title or an estate whereas the pledgee got merely possession with a right to foreclose on default." Similarly, Judge Learned Hand wrote, in 1922, that it "is everything agreed that the significant distinction between a pledge and a mortgage is that in the first the creditor gets no title, . . . while in the second he does." *Ex parte Crombie & La Mothe, Inc. (In re German Publ'n Soc'y)*, 289 F. 509, 509 (S.D.N.Y. 1922) . . . .

In re Cybernetic, 252 F.3d at 1053. Ultimately, the Court focuses on the Supreme Court's explanation in *Waterman* that "[w]hether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name which it calls itself, but upon the legal effect of its provisions." *Waterman*, 138 U.S. at 256. The issue of the recording of the Security Agreement, at least in relation to Section 261, would only be relevant as to a dispute regarding a subsequent purchase or mortgagee. Thus, the Court rejects Sky's reasoning that the recording of the Security Agreement fulfills the written assignment provision of Section 261. Here, the issue is whether there was a written assignment necessary to satisfy

Section 261. If the Security Agreement transferred substantial rights to the patent, then, unlike the security interest in *In re Cybernetic*, it would constitute a security interest that does transfer ownership.

Therefore, the Court must undertake an analysis of the Security Agreement to determine if the provisions of the Security Agreement granted substantial rights as to effect a transfer of title. However, while the parties mentioned various provisions of the Security Agreements, the parties did not fully address whether these provisions transferred substantial rights in the patents. The Court will require further briefing to make a determination on whether they effected a transfer.

In addition, as explained by the only section in the patent rules that refers to security interests:

> *Security Interest.* A security interest does not involve an obligation to transfer rights in the invention for the purposes of paragraphs (a)(l) through (a)(3) of this section unless the security interest is defaulted upon.

37 C.F.R. § 1.37(a)(5). Therefore, the Court recognizes that an alternative method that a security interest may have independently conferred title is through a default. The foreclosure letter indicates that Cross Atlantic purchased the assets. Dkt. No. 132, Exh. N at 2. However, the mere explanation that a sale was made does not rise to the level of an actual written assignment under Section 261. For

example, as the Federal Circuit explained in *Enzo*, though a license itself may be written, verbal, or implied, if it is "to be considered a virtual assignment to assert standing, it must be in writing." *Enzo*, 134 F.3d at 1093. Therefore, parties may also address whether there is independent evidence of a written assignment after the foreclosure. Finally, the parties may brief the effect, if any, of a security agreement that contains the provisions to transfer title but is not effective unless defaulted upon.

III. CONCLUSION

For all of the foregoing reasons, the Court **ORDERS** further briefing on the issue of whether the Security Agreements effected a transfer of substantial rights in the patent to constitute an assignment.

Sky is given **ten (10) days** to submit a brief of no more than **fifteen (15) pages**. Defendants shall have **ten (10) days** to respond of no more than **fifteen (15) pages**. Sky shall have **three (3) days** to file a reply of no more than **ten (10) pages**. Defendants shall have **three (3) days** to file a sur-reply of no more than **ten (10) pages**. When briefing has been completed, the parties are to inform the Court by letter and the Court will set a hearing in due course.

It is so **ORDERED**.

SIGNED this 20th day of March, 2008.

DAVID FOLSOM
UNITED STATES DISTRICT JUDGE

Appendix F

***Sky Technologies LLC v. SAP AG*,**
Order (Fed. Cir. Oct. 28, 2009)

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT
2008-1606

SKY TECHNOLOGIES LLC,
Plaintiff-Appellee,
v.
SAP AG and SAP AMERICA, INC.,
Defendants-Appellants.

Appeal from the United States District Court for the Eastern District of Texas in case no. 2:06-CV-440, Judge David Folsom.

O R D E R

NOTE: This order is nonprecedential.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

O R D E R

A combined petition for panel rehearing and for rehearing en banc having been filed by the Appellants, and a response thereto having been invited by the court and filed by the Appellee, and the petition for rehearing and response, having been referred to the panel that heard the appeal, and

thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on November 4, 2009.

Circuit Judge Moore did not participate in the vote.

FOR THE COURT,

Jan Horbaly
Clerk

Dated: 10/28/2009

cc: Paul S. Grewal
Max L. Tribble, Jr.

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* Amicus Curiae, Lorin Brennan, was granted leave to file a brief in support of the Appellants' combined petition for rehearing and rehearing en banc.

SKY TECHNOLOGIES V SAP AG, 2008-1606
(DCT – 2:06-CV-440)

Appendix G

Historical Patent Acts

EXCERPTS FROM THE PATENT ACT OF 1790, Ch. 7, 1 Stat. 109-112 (April 10, 1790)

An Act to Promote the Progress of Useful Arts.

Sec. 1. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled*, that upon the petition of any person or persons to the Secretary of State, the Secretary for the department of War, and the Attorney General of the United States, setting forth, that he, she, or they, hath or have invented or discovered any useful Art, Manufacture, Engine, Machine, or Device, or any improvement therein not before known or used, and praying that a patent may be granted therefor, it shall and may be lawful to and for the said Secretary of State, the Secretary for the Department of War, and the Attorney General, or any two of them, if they shall deem the invention or discovery sufficiently useful and important, to cause Letters Patent to be made out in the name of the United States, to bear teste by the President of the United States, reciting the allegations and suggestions of the said petition, and describing the said invention or discovery clearly, truly, and fully, and thereupon granting to such petitioner or petitioners, his, her, or their Heirs, Administrators or assigns for any term not exceeding fourteen Years, the sole and exclusive right and liberty of making, constructing, using and vending to others to be used

the said Invention or Discovery; which Letters-patent shall be delivered to the Attorney General of the United States to be examined, who shall, within fifteen days next after the delivery to him, if he shall find the same conformable to this Act, certify it to be so at the foot thereof, and present the Letters Patent so certified to the President, who shall cause the Seal of the United States to be thereto affixed, and the same shall be good and available to the Grantee or Grantees by force of this Act, to all and every intent and purpose herein contained, and shall be recorded in a book to be kept for that purpose in the Office of the Secretary of State, and delivered to the Patentee, or his Agent, and the delivery thereof shall be entered on the Record and endorsed on the Patent by the said Secretary at the time of granting the same.

Sec. 4. *And be it further enacted,* that if any person or persons shall devise, make, construct, use, employ, or vend within these United States, any Art, Manufacture, Engine, Machine or Device, or any Invention or improvement upon, or in any Art, Manufacture, Engine, Machine, or Device, the sole and exclusive right of which shall be so as aforesaid granted by Patent to any person or persons, by Virtue and in pursuance of this Act, without the Consent of the Patentee or Patentees, their Executors, Administrators or Assigns first had and obtained in Writing, every person so offending shall forfeit and pay to the said Patentee or Patentees, his, her or their Executors, Administrators or Assigns, such damages as shall be assessed by a jury, and moreover shall forfeit to the person aggrieved the thing or things so devised, made, constructed, used,

employed or vended, contrary to the true intent of this Act, which may be recovered in an Action on the Case founded on this Act.

EXCERPTS FROM THE PATENT ACT OF 1836, Ch. 357, 5 Stat. 117 (July 4, 1836)

An Act to promote the progress of the useful arts, and to repeal all acts and parts of acts heretofore made for that purpose.

Sec. 1. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, that there shall be established and attached to the Department of State an office to be denominated the Patent Office; the chief officer of which shall be called the Commissioner of Patents, to be appointed by the President, by and with advice and consent of the Senate, whose duty it shall be, under the direction of the Secretary of State, to superintend, execute, and perform all such acts and things touching and respecting the granting and issuing of patents for new and useful discoveries, inventions, and improvements, as are herein provided for or shall hereafter be, by law, directed to be done and performed, and shall have the charge and custody of all the books, records, papers, models, machines, and all other things belonging to said office. And said Commissioner shall receive the same compensation as is allowed by law to the Commissioner of the Indian Department, and shall be entitled to send and receive letters and packages by mail, relating to the business of the office, free of postage.

Sec. 5. *And be it further enacted*, that all patents issued from said office shall be issued in the name of the United States, and under the seal of said office, and be signed by the Secretary of State, and

countersigned by the Commissioner of the said office, and shall be recorded, together with the descriptions, specifications, and drawings, in the said office, in books to be kept for that purpose. Every such patent shall contain a short description or title of the invention or discovery, correctly indicating its nature and design, and in its terms grant to the applicant or applicants, his or their heirs, administrators, executors, or assigns, for a term not exceeding fourteen years, the full and exclusive right and liberty of making, using, and vending to others to be used, the said invention or discovery, referring to the specifications for the particulars thereof, a copy of which shall be annexed to the patent specifying what the patentee claims as his invention or discovery.

Sec. 11. *And be it further enacted*, that every patent shall be assignable in law, either as to the whole interest, or any undivided part thereof, by any instrument in writing; which assignment, and also every grant and conveyance of the exclusive right, under any patent, to make and use, and to grant to others to make and use the thing patented within and throughout any specified part or portion of the United States, shall be recorded in the Patent Office within three months from the execution thereof, for which the assignee or grantee shall pay to the Commissioner the sum of three dollars.

Sec. 14. *And be it further enacted*, that whenever, in any action for damages for making, using, or selling the thing whereof the exclusive right is secured by any patent heretofore granted, or by any patent which may hereafter be granted, a verdict shall be rendered for the plaintiff in such action, it

shall be in the power of the Court to render judgment for any sum above the amount found by such verdict as the actual damages sustained by the plaintiff, not exceeding three times the amount thereof, according to the circumstances of the case, with costs; and such damages may be recovered by action on the case, in any Court of competent jurisdiction, to be brought in the name or names of the person or persons interested, whether as patentees, assignees, or as grantees of the exclusive right within and throughout a specified part of the United States.

EXCERPTS FROM THE PATENT ACT OF 1870, Ch. 230, 16 Stat. 198-217 (July 8, 1870)

Sec. 22. *And be it further enacted,* That every patent shall contain a short title or description of the invention or discovery, correctly indicating its nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use and vend the said invention or discovery throughout the United States and the Territories thereof, referring to the specification for the particulars thereof; and a copy of said specifications and of the drawings shall be annexed to the patent and be a part thereof. [R.S. § 4884]

Sec. 34. *And be it further enacted,* That when any person, having made any new invention or discovery for which a patent might have been granted, dies before a patent is granted, the right of applying for and obtaining the patent shall devolve on his executor or administrator, in trust for the heirs at law of the deceased, in case he shall have died intestate; or if he shall have left a will, disposing of the same, then in trust for his devisees, in as full manner and on the same terms and conditions as the same might have been claimed or enjoyed by him in his lifetime; and when the application shall be made by such legal representatives, the oath or affirmation required to be made shall be so varied in form that it can be made by them. [R.S. § 4896]

Sec. 36. *And be it further enacted,* That every patent or any interest therein shall be assignable in law, by an instrument in writing; and the patentee or his assigns or legal representatives may, in like manner, grant and convey an exclusive right under his patent to the whole or any specified part of the United States; and said assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the patent office within three months from the date thereof. [R.S. § 4898]

Sec. 59. *And be it further enacted,* That damages for the infringement of any patent may be recovered by action on the case in any circuit court of the United States, or district court exercising the jurisdiction of a circuit court, or in the supreme court of the District of Columbia, or of any Territory, in the name of the party interested, either as patentee, assignee, or grantee. And whenever in any such action a verdict shall be rendered for the plaintiff, the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs. [R.S. § 4919]